DOCUMENT 5

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Lead Counsel for Direct Purchaser Plaintiffs

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

IN RE: CATHODE RAY TUBE (CRT) ANTITRUST LITIGATION	Master File No. 07-CV-5944-JST
	MDL No. 1917
This Document Relates to: *ALL DIRECT PURCHASER ACTIONS*	**DECLARATION OF GEOFFREY C. RUSHING IN SUPPORT OF DIRECT PURCHASER PLAINTIFFS' REPLY IN SUPPORT OF MOTION TO COMPEL JURISDICTIONAL DISCOVERY FROM THE IRICO DEFENDANTS** Special Master: Hon. Vaughn R. Walker (Ret.)

I, Geoffrey C. Rushing, declare:

1. I am of counsel to Saveri & Saveri, Inc., Lead Counsel for Direct Purchaser Plaintiffs ("DPPs") in this action. I am a member of the Bar of the State of California and admitted to practice in the Northern District of California. I have been involved in virtually every aspect of this case from its outset in 2007. I make this Declaration in Support of DPPs' Reply in Support of their Motion to Compel Jurisdictional Discovery from the Irico Defendants. Except as otherwise stated, I have personal knowledge of the facts stated below.

2. On July 13, 2018, I sent a letter to Stuart C. Plunkett of Baker Botts LLP, counsel for the Irico Defendants, regarding letters I had sent on June 5, June 21, and July 5, 2018. Attached hereto at Exhibit 1 is a true and correct copy of my letter to Mr. Plunkett dated July 13, 2018. To date, DPPs have received no response.

3. According to a native Chinese speaking attorney working under my supervision, the Irico Defendants and Caihong Co. use the same two Chinese characters for "Cai-hong" (彩虹) in their names. In addition, I am informed by this attorney that the Irico Defendants are identified as "Caihong" as well as "Irico" in their English business names.

4. Attached hereto as Exhibit 2 is a true and correct copy of Irico Group Electronics Co., Ltd.'s 2005 Annual Report, dated April 24, 2006, available at http://www.irico.com.cn/en/wp-content/uploads/2006/05/LTN20050504421.pdf.

5. Attached hereto as Exhibit 3 is a true and correct copy of Irico Group Electronics Co., Ltd.'s 2011 Annual Report, dated March 28, 2012, available at http://www.irico.com.cn/en/wp-content/uploads/2014/04/LTN20120417370.pdf.

6. I am informed by a native Chinese speaking attorney working under my supervision that, according to his research, Caihong Co.'s offices appear to have the same address as the Irico Defendants: No. 1 Caihong Road, Xianyang, Shaanxi Province, People's Republic of China. I am also informed by this attorney that according to Irico Group Electronics Co., Ltd.'s Annual Reports from 2005, 2011 and 2017, Caihong Co. appears to share personnel with other Irico companies.

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I declare under the penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 18th day of July, 2018 in Corvara, Italy.

/s/ Geoffrey C. Rushing
Geoffrey C. Rushing

EXHIBIT 1

SAVERI & SAVERI, INC.
706 SANSOME STREET
SAN FRANCISCO, CALIFORNIA 94111
TELEPHONE: (415) 217-6810
TELECOPIER: (415) 217-6813

July 13, 2018

VIA EMAIL

Stuart C. Plunkett
Baker Botts LLP
101 California Street, Suite 3600
San Francisco, California 94111
stuart.plunkett@bakerbotts.com

Re: *In re Cathode Ray Tube (CRT) Antitrust Litigation* – MDL No. 1917, Master File No. 07-CV-5944-JST

Dear Stuart:

I write to follow up on letters I sent you on June 5 and 21, 2018 regarding our meet and confer on your clients' responses to Direct Purchaser Plaintiffs' discovery requests, and on July 5, 2018 requesting to confer about scheduling depositions of your clients, Defendants Irico Display Devices Co., Ltd. and Irico Group Corporation, and their current or former employees. Please let me know if we can expect responses to these letters and, if so, when. Thank you.

Very truly yours,

s/ Geoffrey C. Rushing

Geoffrey C. Rushing

Cc: John Taladay
Erik T. Koons
Thomas E. Carter
Ashley Eickhof
Kaylee Yang
Mario N. Alioto
Lauren C. Capurro
Christopher T. Micheletti
Joseph M. Patane

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EXHIBIT 2

CONTENT

Corporate Profile

1. Introduction

IRICO Group Electronics Company Limited (the "Company") was incorporated in Xianyang, Shaanxi Province, the People's Republic of China (the "PRC" or "China") on 10 September 2004. It was established with the contribution made by IRICO Group Corporation, the controlling shareholder and sole promoter of the Company, in respect of its assets of production and sales of color picture tubes ("CPTs") in its related core businesses and, the equity interests in its eight subsidiaries engaged in related operations. The Company's H Shares were successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2004.

The Company and its subsidiaries (the "Group") are the largest CPTs manufacturer in China and one of the world's major CPTs and CPT components manufacturers. We also have the longest operating history amongst all CPTs manufacturers in China, with over 20 years of experience in CPTs production.

Major customers of the Group include TCL, Changhong, Hisense, Konka and Skyworth, which are major television producers in China.

2. Corporate information

Executive Directors

Xing Daoqin	Chairman
Tao Kui	Vice Chairman
Guo Mengquan	President
Zhang Shaowen	
Yun Dajun	Chief Financial Controller

Non-executive Director

Zhang Xingxi

Independent non-executive Directors

Feng Fei
Xu Xinzhong
Feng Bing
Wang Jialu
Zha Jianqiu

Audit committee

Zha Jianqiu
Feng Bing
Feng Fei
Xu Xinzhong
Zhang Xingxi

Joint Company secretaries

Zhang Chunning
Ng Yuk Keung

Qualified accountant

Ng Yuk Keung

Authorised representative

Yun Dajun
Zhang Chunning

2. Corporate information *(continued)*

Legal address in the PRC

No. 1 Caihong Road
Xianyang, Shaanxi Province
The People's Republic of China
Postal code: 712021

Place of business in Hong Kong

Room 3103, 31st Floor
Convention Tower, 1 Wanchai Road
Hong Kong

Company website

www.irico.com.cn

Legal adviser

Baker & McKenzie
14th Floor, Hutchison House
10 Harcourt Road
Hong Kong

Auditors

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong

Principal bankers

Industrial and Commercial Bank of China (Xianyang Branch)
Construction Bank of China (Xianyang Branch)
Industrial and Commercial Bank of China (Xi'an Advanced Technology Development Zone Branch)
Industrial and Commercial Bank of China (Xi'an Branch)

Registrar of H Shares

Computershare Hong Kong Investor Services Limited
Room 1712 - 1716, 17th Floor, Hopewell Center
183 Queen's Road East
Hong Kong

Investor and media relations

Wonderful Sky Public Relations and Financial Consultant Company Limited
Unit 3103, 31st Floor, Office Tower
Convention Plaza,1 Harbour Road
Hong Kong

Financial Highlights

1. Results

	2005 **RMB'000**	2004 RMB'000	Change (%)
Turnover	**3,927,500**	4,949,683	(20.7%)
Gross (loss) / Profit	**(429,871)**	1,052,727	(140.8%)
Gross profit margin (%)	**(11%)**	21%	(152.4%)
Operating (loss) / profit	**(839,381)**	713,020	(217.7%)
Operating profit margin (%)	**(21.4%)**	14.4%	(248.6%)
(Loss) / profit attributable to the equity holders of the Company	**(754,547)**	385,327	(295.8%)
Net profit margin (%)	**(19.2%)**	7.8%	(346.2%)
(Loss) / earnings per share for (loss) / profit attributable to the equity holders of the Company during the year (expressed in RMB per share)	**(0.39)**	0.25	(256%)
Dividend per share (RMB)	**0.03**	0.11	(72.7%)

2. Financial condition

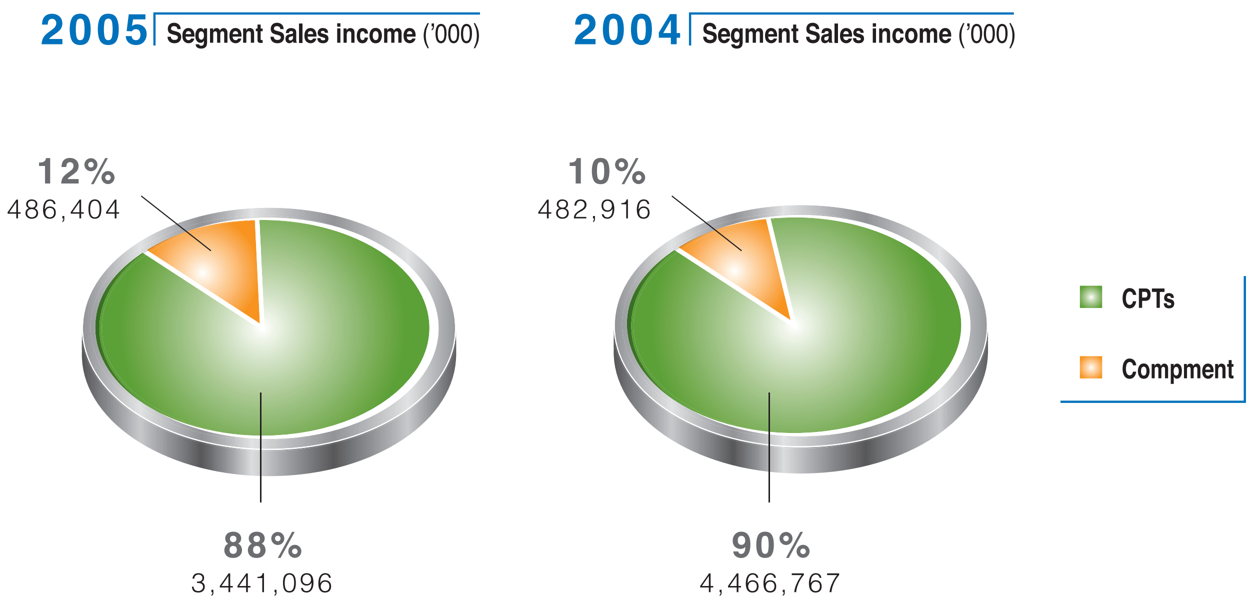
	2005 **RMB'000**	2004 RMB'000
Property, plant and equipment	**2,921,436**	3,416,190
Net current assets	**83,286**	607,625
Cash and bank balances	**587,838**	1,117,516
Total liabilities	**2,734,800**	2,949,962
Short-term bank borrowings	**1,260,177**	1,420,000
Total equity	**3,060,626**	4,171,316

Financial Highlights *(Continued)*

3. Operating indices

	2005	2004
Returns per share (annual)	**(38.9%)**	19.9%
Inventory turnover (days)	**64**	86
Accounts receivable turnover (days)	**135**	93
Accounts payable turnover (days)	**66**	63
Current ratio	**1.03**	1.21
Debt equity ratio	**1.41**	1.52

4. Turnover distribution by products



Chairman's Statement

Chairman :
Mr. Xing Daoqin

Dear shareholders,

I am profoundly honoured to take the position of the Chairman of the Company on 5 August 2005 and deeply feel the great responsibility to be borne by me.

In 2005, the colour picture tube ("CPT") industry experienced unprecedented difficulties and challenges. Owing to the rapid growth of the flat panel display ("FPD") television sets, the sales volume of cathode ray tube ("CRT") television sets started to show a declining trend. This caused the total volume of sales by domestic CPTs manufacturers to decline for the first time following the rapid growth in recent years. The decline was over 23% in the first half of 2005, far beyond the expectation of the Company's management and the industry generally. At the end of 2005, analyst organisations including America's Stanford Resources Co. made considerable downward revisions to their previous forecast regarding CRT television set shipments.

In the first quarter of 2005, domestic television sets manufacturers made general adjustments to operating strategies and policies of CPTs inventories, resulting in a rapid reduction in the sales volume of CPTs in the short term and a surge in the inventories of CPTs. Business operations of CPT enterprises were further worsened by the decreasing CPTs prices and the soaring prices of certain raw materials. The Company managed to maintain a stable market share through implementation of active measures including strategies for exploring potentials and reducing costs.

Overview of results

During 2005, the Group sold 14,352,000 units of CPTs in total, representing an increase of approximately 5%, as compared with 2004. Sales revenue of CPTs for 2005 was RMB3,927,500,000, representing a decrease of 20.7% as compared with 2004. The overall gross profit margin was -11%. The loss attributable to the equity holders of the company was RMB754,547,000.

Last year, drastic price reduction and surging sales volume of FPD television sets, particularly of over 30" super large screen FPD television sets, had an increasingly noticeable replacement impact on CRT television sets, particularly on over 30" large screen CRT television sets. The speed of growth in FPD television sets was faster than generally expected by the industry. In the first quarter of 2006, Stanford Resources Co. made significant revisions to the forecast regarding 30"- 34" CRT television sets and LCD television sets , and Displaysearch, another organisation in America preparing industry forecast, also made similar revisions. In light of this, the Board of Directors appointed a professional valuer to evaluate the value of the existing production facilities and construction in progress. Based on the evaluation report, the Group made provision for diminution in value of property, plant and equipment amounting to RMB567,659,000 for 2005, of which, provision for diminution in value of K line planned for production of super large screen high definition flat CPTs amounted to RMB320,325,000 and provision for diminution in value for other related production lines amounted to RMB247,334,000.

Business Review

In response to the severe difficulties, the Group adopted measures including strengthening marketing-driven strategy and cost-leading strategy, reinforcing the research and development of new display devices, optimizing the product mix, increasing sales volume, reducing product cost, so as to enhance competitiveness in the market.

In 2005, the Group developed 15" AK material and 21" AK material CPTs. 21" AK material CPTs realised scale production. 21" slim CPTs, 25" AK material CPTs and 28"16:9 CPTs were also being developed.

Business Review *(continued)*

The Group has also developed 50" XGA PDP panels and modules and 60" XGA PDP panels and modules, and successfully developed sample television sets. 42" XGA PDP panels and modules are being developed. Following the successful development of phosphor to achieve scale production, the Group is developing other cathode materials as well as new components and parts.

The Group undertook various measures including management and technological innovation and further improvement of market expectation mechanism and marketing mode, and achieved an increase of 678,000 units in CPTs sales over 2004. The Group took steps to improve management and production efficiency, implemented cost reduction measures which focused on increasing product popularity, reducing cost and increasing quality, and effectively enhanced the competitive advantages of the products in the industry.

Owing to timely adjustments of strategies in 2005, the CPT components business of the Company not only ensured internal supply capability, but also actively explored the external market to increase revenue. In 2005, the Group accomplished sales revenue of RMB486,404,000 in CPT components, representing a year-on-year increase of 0.7%.

Future prospects

Adversely impacted by FPD television sets, the global CPT industry has started to decline, but will still own a considerable market share for a certain period of time. The Group is faced with difficult challenges and is in a phase of business repositioning. In such phase, the Group will on the one board strengthen the existing CPTs business and on the other hand explore new businesses, with a view to achieving smooth and successful repositioning and maintaining sustainable development.

The Group will actively implement marketing-driven, cost-leading and new technology supporting strategies to push forward stable enterprise reform, so as to expand the Group's market and increase its market share. The Group will explore new technologies to further optimize product mix and reduce cost, so as to further strengthen product competitiveness. Meanwhile, the Group will also actively develop its component business and optimize product chain to increase revenue.

The Group will capitalize on the internal and external resources to explore new businesses and seek new areas of profit growth on two fronts in accordance with the principles of conducting broad research and surveys, scientific decisions and prudent investment policies. First, the Group will continue to explore the business of new display devices. The Group will speed up the industrialization of PDP devices, track and develop other flat screen CPTs, and will consider ways and means of entering into the new business with a view to actual implementation. Second, the Group will leverage on the advantage of the CPTs ancillary component business for new product research and development. The Group will strengthen the research and development of cathode materials, glass products and launch new products continuously.

Faced with a market environment which is fraught with challenges and opportunities, the management have the confidence and are determined to enhance the Group's competitiveness and to improve the Group's operating results and return for shareholders.

Acknowledgement

I have pleasure to extend the gratitude on behalf of the Board to shareholders, business partners and members of the community for their care and support for the Company, and express my heartfelt gratitude to all management members and employees for their dedicated efforts at work. I wish we can all exert out synergetic endeavour to overcome various kinds of difficulties in order to achieve the business target of the Company in the coming year.

IRICO Group Electronics Co., Ltd.
Xing Daoqin
Chairman

Xianyang, the PRC
24 April 2006

Management Discussion and Analysis

1. Industry Analysis

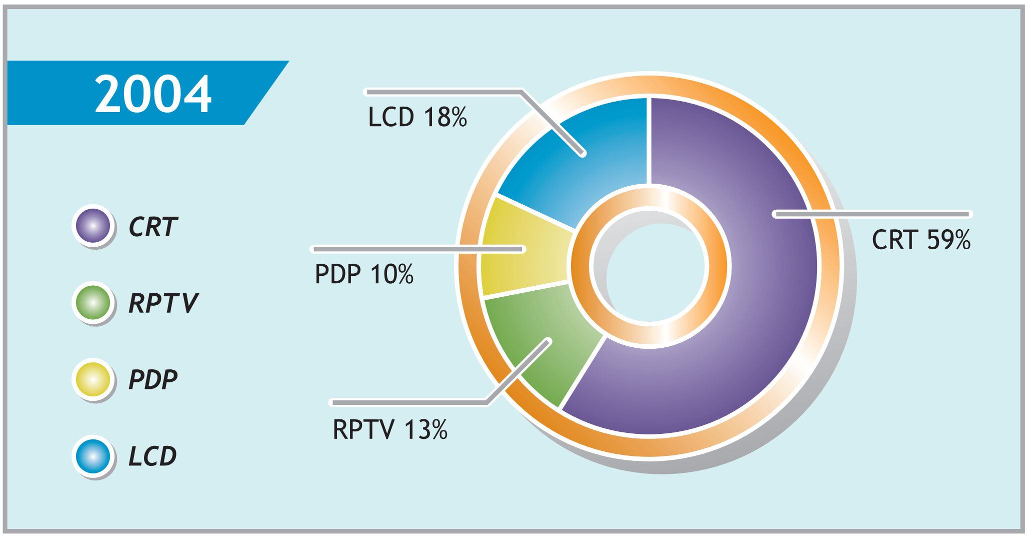
In 2005, affected by the fast growth of FPD television sets, the CPT industry witnessed significant industry decline beyond the expectation of the Company's management, as seen in the stagnant CPTs market, the increase in inventories, the decline in prices of CPT products and the price increase in certain raw materials, leading to a general decline in profitability in the CPT industry.

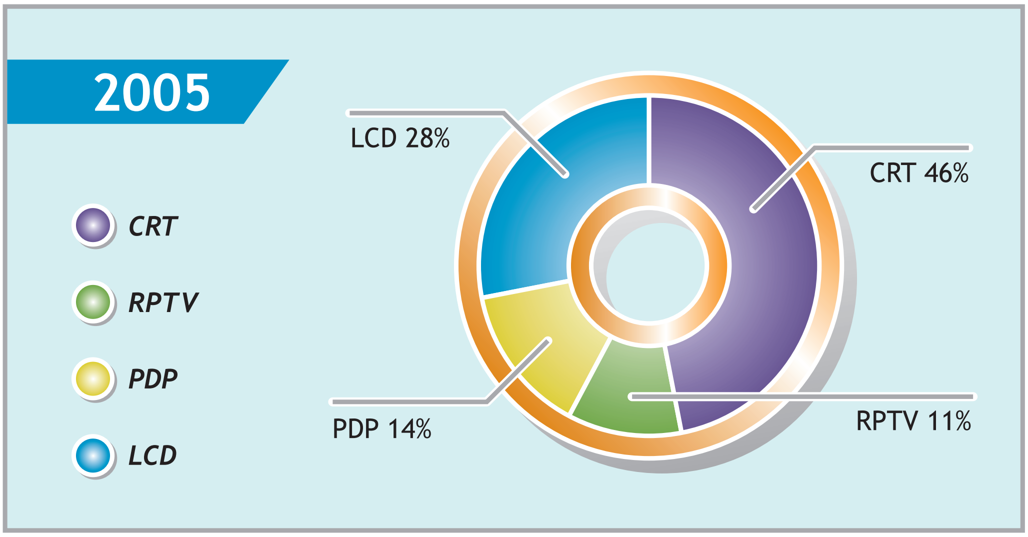
After moving into 2005, the global CRT television sets market did not maintain the growth in the fourth quarter of 2004. On the other hand, globally, the TFT-LCD manufacturers' investments read in 2005 a year-on-year growth of 100% and hit a record of US$12.7 billion. The huge production capacity created following such investments imposed tremendous pressure on the traditional CRT television sets market. Such pressure was exaggerated and aggravated by exhibitors and participants in international exhibitions such as America Las Vegas CES exhibition in January 2005 and Germany Hannover CeBIT exhibition in March 2005. As such, domestic and overseas major television sets manufacturers universally shifted the operation focus to FPD television sets and made corresponding adjustments to the policies regarding internal inventories of CPTs and colour television sets. This directly led to the continual decline of the global sales volume of CPTs starting from 2005. According to the "Television Systems Market Tracker (1st Quarter of 2006)" recently released by America's Stanford Resources Co., the actual global sales volume of CRT television sets in the first quarter of 2005 decreased by 19% as compared with the fourth quarter of 2004, being the biggest single-quarter reduction in 20 consecutive quarters. Such reduction was not only beyond the expectation of the Company's management, but was also beyond the original forecast by consultancy institutions like Stanford.

According to the above report from Stanford, the sales volume of global CRT television sets amounted to only 146,000,000 units in 2005, the lowest sales volume from 2001. In particular, the high value added digital television sets using super large screen CRT suffered a greater impact from FPD television sets. Stanford statistics reveals that the actual global sales volume of 30"-34'' 16:9 full-flat CRT television sets in 2005 only accounted for approximately 80% of the forecast made in the fourth quarter of 2004. Along with the decrease in sales volume, the prices of CRT television sets declined noticeably as a result of the inadequate demand. The statistics shows that globally the average prices of CRT television sets in 2005 represented a decrease of 7.6%, with even higher reductions in some mainstream products such as a reduction of 12.8% in the 27"-29" flat CRT television sets and a reduction of 15% in 30"-34" 16:9 flat CRT television sets in the year. Owing to the dual impact of decreasing sales volume and declining prices, the sales revenue of the CRT television sets in the global market in 2005 only accounted for 46% of total sales revenue of all television sets, which proportion was for first time lower than 50%.

1. Industry Analysis *(continued)*

The composition of global sales volume of television sets market in 2004-2005 and changes in the composition (US Dollar)



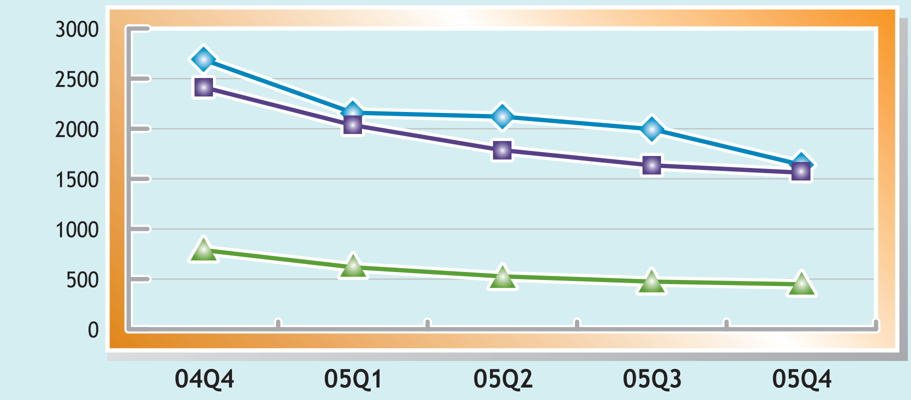


Sources: "Television Systems Market Tracker - (06Q1)", Stanford Co.

1. Industry Analysis *(continued)*

China is the largest colour television sets manufacturer and consumer in the world. In China, traditional CRT television sets likewise experience strong challenges from FPD television sets. In 2005, the prices of domestic FPD television sets continued to drop because of promotion by manufacturers and merchants, and the prices of two mainstream flat products including 32" LCD-TV and 42" PDP-TV fell felow the significant psychological price level of RMB15,000, boosting the actual sales volume of domestic PDP and LCD television sets in 2005 to 1,920,000 units, up 463% over 2004. The replacement impact on CRT television sets has become obvious.

The trend of change in prices of the mainstream FPD television sets in China's television sets market in 2005 (US$)



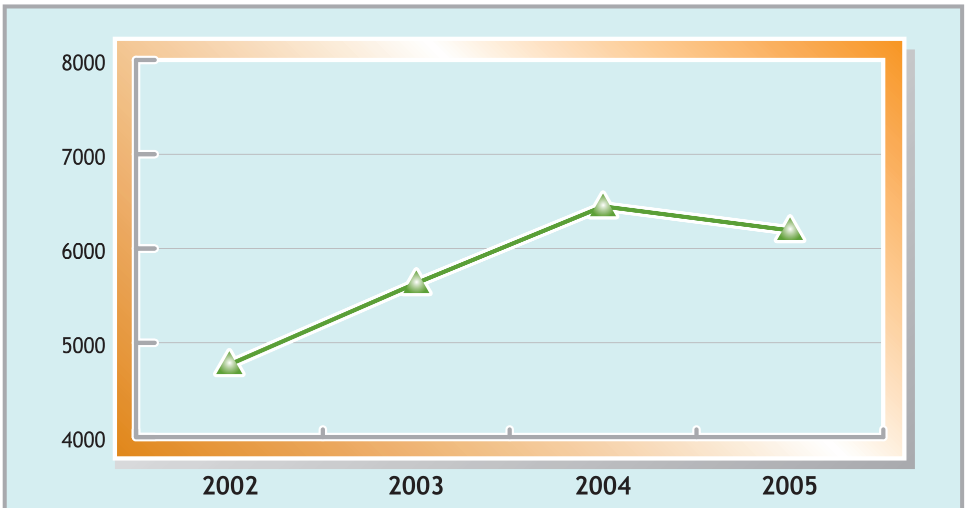
	04Q4	05Q1	05Q2	05Q3	05Q4
42" PDP	$2,690	$2,160	$2,121	$1,996	$1,641
32" LCD	$2,414	$2,036	$1,786	$1,635	$1,562
18-20" LCD	$789	$618	$527	$475	$448

Sources: "Television Systems Market Tracker - (06Q1)", Stanford Co.

1. Industry Analysis *(continued)*

As affected by the fast development of FPD television sets in China, together with other factors including the adjustment of operating strategies and inventories policies by television sets manufacturers, the decrease in the number of marriages last year because of traditional custom and the rise in the prices of certain raw materials, the domestic CPT industry recorded the first decline following the fast growth in recent years and production volume dropped by 4% in 2005. Sales volume also experienced certain declines. Despite an increase in export in 2005, the rate of increase dropped by 6 percentage points over the previous year, representing the lowest growth in the recent 5 years.

The production in the CPT industry in China in recent years (unit: 0'000 sets)



	2002	2003	2004	2005
CPT Production	4,769	5,632	6,447	6,192

Source: China ccm.com

1. Industry Analysis *(continued)*

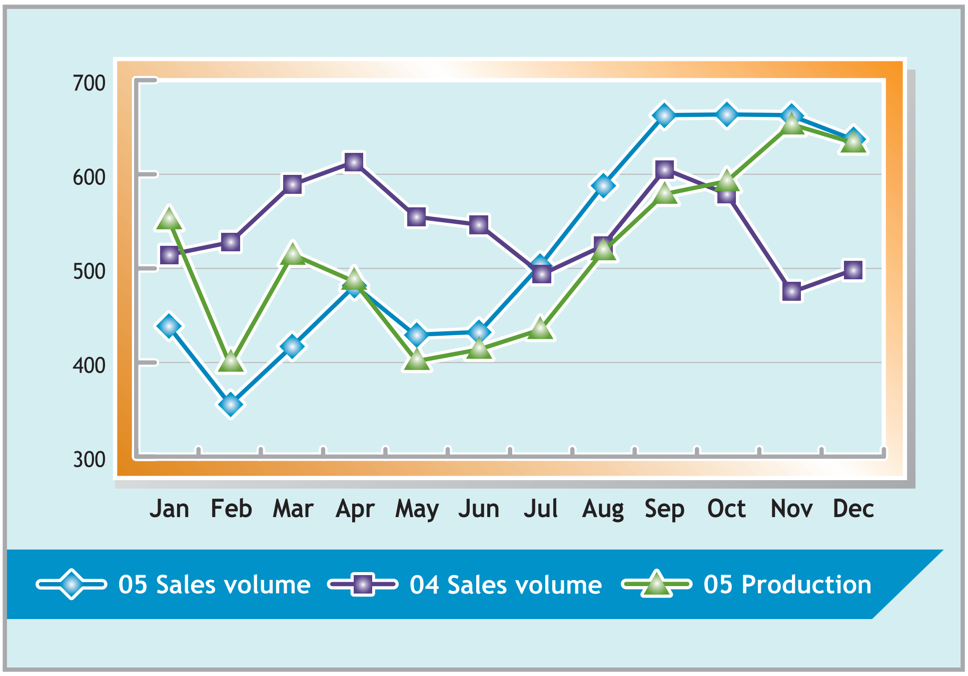
Notwithstanding the decline in the overall CPT market in 2005, CPT still showed a moderate increase in certain segment markets such as flat tubes and super slim tubes. In the domestic market, the production volume of flat tubes in 2005 amounted to 27,865,300 units, up 27.5% over 2004.

As for the television sets market in the future, in the opinion of the Company, the CPT industry will continue to face the persisting and material impact brought by FPD television sets and it has started to move globally into a declining phase. However, CRTs will still have a considerable market share in the next few years. According to the latest report from Stanford, the global sales volume of CRT television sets in 2009 is expected to amount to 91,840,000 units. As regards the PRC market, the permeation rate and popularization rate of FPD television sets are lower than the average level in the world. According to the forecast by America's Displaysearch, the CRT television sets market in China will still maintain the scale of 27,050,000 units in 2009, accounting for over two-thirds of the total sales volume of television sets for that year. To reduce industry risks, CRT manufacturers in China and overseas will on the one hand enter the FPD sector through investment in plasma display panels ("PDP") production lines and high generation Thin Film Transistor Liquid Crystral Display ("TFT-LCD") production lines, and on the other hand improve the competitive advantages in its exist business through integration and reorganization within the industry and restructuring product mix of CRT products. For instance, manufacturers will close down the production lines in high-cost regions like Europe and USA and upgrade product mix of CRT products in the direction of flat, super slim, digital and low-cost products.

As regards outlook on 2006, although pressure from FPD television sets will increase, there will emerge certain factors favourable to the CRT industry, such as the Germany world cup event, and the gradual closing down of CRT production lines in the European and USA regions. In the PRC, year 2006 is expected to see a significant year-on-year increase in the married population, and policy inclination will continue to drive improvement in individuals' income in the rural sector. On the basis of the above factors, the Company is of the view that although the global sales volume of CPTs in 2006 will continue to decline, the degree of decline in the PRC will be smaller compared to the world, and the overall degree of decline in 2006 will be smaller than in 2005.

1. Industry Analysis *(continued)*

The monthly production and sales revenue in the CPT industry in China in 2005 (unit: 0'000 units)



Source: China ccm.com

2. Business Review

(1) Operation Highlights

As a result of unprecedented difficulties in the operating environment of the CPT industry, the Group's operating results for 2005 decreased considerably. The Group's turnover in 2005 amounted to RMB3,927,500,000, representing a decrease of 20.7% as compared with the 2004 corresponding period, and the Group's loss for 2005 attributable to equity holders of the Company amounted to RMB754,547,000, representing a decrease of 295.8%, as compared with the 2004 corresponding period.

(2) CPTs Business

During 2005, the Group sold 14,352,000 units of CPTs in total, representing an increase of approximately 678,000 units, or approximately 5%, as compared with the 2004 corresponding period. Sales revenue of CPTs for 2005 was RMB3,441,096,000, representing a decrease of RMB1,025,671,000, or approximately 23%, as compared with the 2004 corresponding period.

The Group recorded a year-on-year decrease of 19% and 32% in sales volume of CPTs and the total sales revenue respectively for the first half of 2005. In the second half year, the sales volume of CPTs noticeably rose again, with the production and sales levels reaching an equilibrium and the inventory level of CPTs basically returning to its normal level. In addition, a year-on-year increase of 2% was observed in the sales volume of CPTs, and the Group's share of the total sales volume of domestic CPTs manufacturers increased by 2%. In 2005, the average prices of the Group's CPTs declined by approximately 27% over last year, and the prices of the mainstream products such as 21" CPTs even decreased by over 30%. As a result of such continuous price decrease, the Group recorded a noticeable decrease in turnover in 2005 and for the first time experienced a loss.

Faced with the huge difficulties in 2005, the Group optimized product mix to expedite new product development for marketing-based growth, and cost-efficient initiatives were also carried out under the cost-leading strategy to sharpen the Group's competitive edge in the market.

In 2005, the Group developed 15" AK material and 21" AK material CPTs. 21" AK material CPTs realised its scale production. 21" slim CPTs, 25" AK material CPTs and 28"16:9 CPTs were also being developed.

The Group further perfected the market expectation mechanism and adopted the marketing model of coping rolling estimation and planning with production according to orders. Meanwhile, we put efforts in integration of resources and communication with customers, etc. Through its efforts, the Group achieved a resilient growth in the sales volume of CPTs in the second half year, realizing an increase of 678,000 units in sales volume of CPTs in 2005 over 2004.

2. Business Review *(continued)*

(2) CPTs Business *(continued)*

The Group undertook various in-depth cost-efficient measures including management and technological innovation for cost reduction and potential tapping, reduction of procurement cost, marketing the product to increase its popularity, reduce the cost and increase the quality, aiming at reducing the production cost to release to a certain extent the pressure of continuous price reduction of products.

(3) CPT Components Business

By timely adjustments to business strategies in 2005, the CPT components business of the Company ensured the internal supplying capability, as well as actively explored the market of external sale to increase the revenue. In 2005, the Group strived to accomplish sales revenue of RMB486,404,000 in CPT components, a year-on-year increase of 0.7%.

(4) Research and Development

In 2005, the Group mainly focused on new tubes, new materials, and new processes, such as research and development of 15" AK CPTs, 21" and 25" AK CPTs, 21" slim CPTs, 28"16:9 CPTs and products of relevant components, and 21" AK flat CPTs realized scale production. In the FPD sector, the Company developed 50" XGA PDP panels and modules and 60" XGA PDP panels and modules in 2005 and successfully developed sample CPTSs. We are also actively tracking and studying such new FPD technologies like OLED and PLED.

3. Future prospects

As materially impacted by FPD television sets, the global CPT industry has started to decline, but will still own a considerable market share for a certain period of time. As the largest CPTs manufacturer in the PRC and one of the main CPTs manufacturers in the world, the Group will continue to secure its existing CPT business and to sharpen its competitive edge. Furthermore, the Company will explore new business, expedite development of PDP devices to actively speed up the industrialisation of new display devices, track and develop other flat screen CPTs and specialty glass and specialty phosphor, and seek new profit growth.

As to the CPTs business, the Group will continue to advance the operating strategies of total cost at the top and establish the cost back push mechanism and cost accountability mechanism, increase the proportion of online material procurement, introduce production models without any inventories to reduce financial costs, make adjustments to organizational structure and optimize resources, as well as push forward technological innovation, especially technological renovations.

With efforts in new technologies support and its own innovative capabilities, the Group will further optimize the product mix. The Company will expedite development and scale production of 21" super slim, 25" AK flat, 28"16:9 flat, 29" AK material, and 29" super slim new products. The Group will keep a close eye on the market and timely adjust the research and development direction of products and product mix based on the market demand.

The Group will strengthen marketing-based strategy, further perfect the market expectation mechanism, realize the marketing model of coping rolling estimation with production according to orders, and strengthen communication with customers, so as to actively explore the market.

The Group will further explore the market of external sales in its components business with competitive advantages and actively capitalize on its own advantages to develop new products and penetrate into other relevant industries for diversified development.

The Group will also beef up the strategic cooperation with strategic partners, and will consider opportunities and ways of entering into new business based on the market situation and its own resources.

4. Financial review

(1) Results performance

Profit and loss data for 2001 - 2005 *(RMB'000)*

(RMB'000)	**2001**	**2002**	**2003**	**2004**	**2005**
Turnover	3,293,021	3,999,378	4,269,781	4,949,683	**3,927,500**
Sales of CPTs	3,152,040	3,723,889	3,888,156	4,466,767	**3,441,096**
Sales of CPT components	140,981	275,489	381,625	482,916	**486,404**
Cost of sales	(2,697,243)	(3,079,581)	(3,256,959)	(3,896,956)	**(4,357,371)**
Gross profit / (loss)	595,778	919,797	1,012,822	1,052,727	**(429,871)**
Operating expenses					
Administrative expenses	(190,480)	(219,788)	(227,275)	(219,008)	**(278,875)**
a) General administrative expenses	(149,990)	(165,942)	(195,665)	(172,028)	**(241,935)**
b) Research and development expenses	(40,490)	(53,846)	(31,610)	(46,980)	**(36,940)**
Marketing cost	(85,030)	(102,130)	(103,405)	(113,323)	**(152,565)**
Other operating expenses	(123,431)	(69,524)	(73,604)	(79,275)	**(36,968)**
Operating profit / (loss)	258,247	591,787	679,766	713,020	**(839,381)**
Finance costs	(103,737)	(78,853)	(56,588)	(62,966)	**(70,096)**
Profit / (loss) attributable to the equity holders of the Company	74,311	277,103	315,825	385,327	**(754,547)**

4. Financial review *(continued)*

(1) Results performance *(continued)*

TURNOVER AND GROSS PROFIT MARGIN

Turnover by product *(RMB'000)*

Name		2004	2005	Increase/ (decrease)	Percentage of change
CPTs		4,466,767	**3,441,096**	(1,025,671)	-23.0%
Including:	Small-sized CPTs	782,795	**852,268**	69,473	8.9%
	Medium-sized CPTs	3,614,760	**2,570,102**	(1,044,658)	-28.9%
	Large-sized CPTs	69,212	**18,726**	(50,486)	-72.9%
CPT components		482,916	**486,404**	3,488	0.7%
Total		4,949,683	**3,927,500**	(1,022,183)	-20.7%

Sales volume by product *(Units)*

Name		2004	2005	Increase/ (decrease)	Percentage of change
Including:	Small-sized CPTs	4,555,099	**5,342,504**	787,405	17.3%
	Medium-sized CPTs	9,043,451	**8,980,939**	(62,512)	-0.7%
	Large-sized CPTs	75,484	**28,102**	(47,382)	-62.8%
Total		13,674,034	**14,351,545**	677,511	5%

4. Financial review *(continued)*

(1) Results performance *(continued)*

AVERAGE SELLING PRICE BY PRODUCT

Average selling price by product (RMB / Unit)

Name		2004	**2005**	Decrease	Percentage of change
Including:	Small-sized CPTs	172	**160**	(12)	-7.0%
	Medium-sized CPTs	400	**286**	(114)	-28.5%
	Large-sized CPTs	917	**666**	(251)	-27.4%

(2) Change over last year and reasons

- Turnover and gross profit margin

  In 2005, the Group recorded a turnover of RMB3,927,500,000, representing a decrease of RMB1,022,183,000, or 20.7% from last year. Turnover of the CPT business amounted to RMB3,441,096,000, representing a year-on-year decrease of RMB1,025,671,000, or 23% from last year. Turnover of the component business increased by RMB3,488,000, or 0.7% to RMB486,404,000. The overall gross profit rate of the Group decreased from 21% of 2004 to -11% of 2005. This was mainly due to: 1) provision for diminution in value of certain productive assets amounting to approximately RMB567,659,000; 2) considerable decrease in the average selling prices of CPTs in the whole year of 2005 as compared with the corresponding period of 2004 resulting from fierce competition in the CPT market in the PRC; and 3) increase in prices of certain raw materials.

- Administrative expenses

  The Group's administrative expenses in 2005 increased by RMB59,867,000, or 27.3%, to RMB278,875,000 from RMB219,008,000 in 2004.The increase in administrative expenses was mainly due to: 1) the increase in social welfare fund; 2) provision for compensation paid to staff as a result of the Company's human resource reform in 2005.

4. Financial review *(continued)*

(2) Change over last year and reasons *(continued)*

- Finance costs

  The Group's finance costs for 2005 recorded RMB70,096,000, representing an increase of RMB7,130,000, or 11.3%, from RMB62,966,000 in 2004, which was mainly attributable to the increase in outstanding bank loan and increase in average interest rate.

(3) Net current assets and financial resources

As at 31 December 2005, the Group's cash and bank balances aggregated to RMB587,838,000, representing a decrease of 46.39% from RMB1,096,516,000 as at 31 December 2004. The Group paid RMB448,734,000 for capital expenditure during the year ended 31 December 2005. Net cash flow from operating activities, net cash flow from financing activities and net cash flow from investing activities was RMB204,150,000, RMB-292,126,000 and RMB-420,702,000 respectively. As at 31 December 2005, the Group's borrowings totalled RMB1,260,177,000 as compared with RMB1,420,000,000 as at 31 December 2004. The borrowings were all due within one year. As at 31 December 2005, the Group's short-term bank loans amounting to approximately RMB280,000,000 (31 December 2004: RMB300,000,000) were pledged by its certain properties, plants and equipment with a net book value of RMB284,673,000 (31 December 2004: RMB 321,973,000). Meanwhile, the short-term bank loans included trade bills payable of RMB203,335,000 (31 December 2004: RMB nil) given as discounted bank bills. As at 31 December 2005, the short-term bank loans guaranteed by the ultimate controlling company amounted to RMB440,000,000 (31 December 2004: nil). For the year ended 31 December 2005, turnover period for accounts receivable of the Group was 135 days, representing a increase of 42 days from 93 days for the year ended 31 December 2004, which was mainly attributable to the intensified competition in the CPT market and changes in payment terms and goods flow. For the year ended 31 December 2005, inventory turnover period for the Group was 64 days, representing a decrease of 22 days from 86 days for the year ended 31 December 2004, which was mainly attributable to the improved management on inventories .

4. Financial review *(continued)*

(4) Capital structure

As at 31 December 2005, the Group's borrowings were mainly denominated in Renminbi and US dollars, while its cash and bank balances were mainly denominated in Renminbi, Hong Kong dollars and US dollars. The Group intends to maintain a suitable ratio of share capital to liabilities, so as to ensure an effective capital structure from time to time. As at 31 December 2005, its liabilities including bank loans aggregated to RMB2,734,800,000 with cash and bank balances totalling RMB587,838,000 and a gearing ratio (defined as: total liabilities / total assets) of 47%.

(5) Dividend

The Company's original dividend policy will remain unchangedin 2005. In light of the operating loss in 2005, the Board resolved not to distribute any final dividend.

(6) Foreign exchange risk

The Group's income and most of its expenses are denominated in Renminbi and US dollars. For the 12 months ended 31 December 2005, there was no material impact on the Group's operation or working capital resulting from exchange rate fluctuations.

(7) Commitments

As at 31 December 2005, capital commitments of the Group amounted to RMB234,810,000 (31 December 2004: RMB679,916,000), which were mainly financed by the Group's working capital.

(8) Contingent liability

As at 31 December 2005, the Group had no material contingent liability.

(9) Pledged assets

As at 31 December 2005, the Group had bank loans of RMB280,000,000, secured by its certain properties, plants and equipment with a net book value of approximately RMB284,673,000 .

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Xing Daoqin	51	Chairman
Tao Kui	53	Vice Chairman
Guo Mengquan	49	President
Zhang Shaowen	44	
Yun Dajun	51	Chief Financial Controller

Non-executive Director

Zhang Xingxi*	49

Independent non-executive Directors

Feng Fei*	44
Xu Xinzhong*	42
Feng Bing*	39
Wang Jialu	45
Zha Jianqiu*	37

* *Member of Audit Committee*

Mr. Xing Daoqin (邢道欽) is an Executive Director and the Chairman of the Company. He is responsible for the overall management of the Company. Mr. Xing joined the Company in February 1982. He graduated from Xian Jiaotong University (西安交通大學) with a bachelor degree in automation. In 1996, Mr. Xing was awarded a special government allowance for experts by the State Council of the People's Republic of China. He is a senior engineer at a professor level. Mr. Xing has been acting as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of Caihong Glass Factory under CPT Plant, the head of the Electronic Glass Department of IRICO Group Corporation and the deputy factory manager of CPT Plant. Mr. Xing has over 20 years extensive corporate operation and management experience in the Chinese CPT industry.

Mr. Tao Kui (陶魁) is an Executive Director and the Vice Chairman of the Company. He is responsible for the investment and planning management of the Company. Mr. Tao had joined the Company in September 1978. He graduated from South East University (東南大學) (formerly known as Nanjing Institute of Technology) with a bachelor degree in electrical vacuum devices and is qualified as a senior engineer. Mr. Tao acted as a director of IRICO Group Corporation from November 1995 to February 2001 and as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of both the phosphor powder factory and the glass factory under Shaanxi Colour Picture Tube Plant, a director of IRICO Group Corporation and the deputy factory manager of CPT Plant. Mr. Tao has over 20 years extensive corporate operation and management experience in the Chinese CPT industry.

Mr. Guo Mengquan (郭盟權) is an Executive Director and President. He is responsible for marketing and sales of the Company. Mr. Guo joined the Company in September 1983. He graduated from Northwestern Polytechnical University (西北工業大學) with a bachelor degree in control and manipulation of aviation fluid mechanics and from Shaanxi MBA College with an MBA degree. He is a senior engineer at a professor level. Mr. Guo has been acting as the deputy general manger of IRICO Group Corporation since March 2001. Before that, he was the factory manager of the glass plant under CPT Plant. Mr. Guo has over 20 years of experience in the manufacture of CPT components and corporate operation and management.

Mr. Zhang Shaowen (張少文) is an Executive Director. He is responsible for technology management of the Company. Mr. Zhang joined the Company in August 1981. He graduated from the Party School of Shaanxi Provincial Committee (陝西省委黨校) with a bachelor degree in economic management. He is a senior engineer. Mr. Zhang has been acting as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of both the shadow masks factory and the No. 1 CPT Plant under CPT Plant. Mr. Zhang has been engaged in the Chinese CPT industry for over 20 years and has extensive experience in corporate operation and management.

Mr. Yun Dajun (雲大俊) is an Executive Director, and Chief Financial Controller of the Company. He is responsible for the financial management of the Company. Mr. Yun joined the Company in September 2004. He graduated from National Taiwan University (國立台灣大學) with a bachelor degree in business management. Prior to joining the Company, Mr. Yun acted as the director of finance (Greater China) in BEA Systems HK Ltd., the director of finance and administration and deputy managing director of Compaq in the PRC region and the finance director of Amdocs Development Limited Beijing Representative Office. He also worked for various companies including IBM Company. Mr. Yun was chosen as the "Outstanding Financial Officer" (「傑出財務主持人」) by Financial Executives Institute of the Republic of China (中華財務主持人協會) in 1993.

Mr. Zhang Xingxi (仉興喜) is a Non-executive Director of the Company and currently the chief economist of IRICO Group Corporation. Mr. Zhang joined the Company in August 1981. He graduated from the Faculty of Economics at Beijing Normal Univeristy (北京師範大學) with the postgraduate study in business administration. He was the general manager of Caihong Hotel (彩虹賓館) in Xianyang City, Shaanxi Province, the general manager of Hainan Caihong Industrial and Trading Corporation (海南彩虹工貿總公司), the manager of both the Audit Department and Human Resources Department of IRICO Group Corporation.

Mr. Feng Fei (馮飛) is an independent Non-executive Director of the Company and currently the director and a researcher of the Industrial and Economic Research Unit of the Development and Research Center under the State Council (國務院發展研究中心產業經濟研究). Mr. Feng joined the Company in September 2004. He graduated from Tianjin University (天津大學) with a doctoral degree in engineering. He conducted a postdoctoral research on mechanical and electrical engineering at Qinghua University (清華大學). Mr. Feng was awarded a special allowance by the State Council.

Mr. Xu Xinzhong (徐信忠) is an Independent Non-executive Director of the Company and currently a professor in Finance in Guanghua Management College of Beijing University (北京大學) and Dean of its Faculty of Finance. Mr. Xu joined the Company in September 2004. Mr. Xu obtained his bachelor degree in meteorology from Beijing University, his MBA degree from Aston University in the United Kingdom and his doctoral degree in finance from Lancaster University in the United Kingdom. He worked as a lecturer and senior lecturer of the Faculty of Accounting and Finance at Manchester University in the United Kingdom and was a professor and a chair in Finance of the Faculty of Management at Lancaster University in the United Kingdom. Mr. Xu has been acting as a professor of Guanghua Management College of Beijing University and Dean of its Faculty of Finance since January 2002. Mr. Xu was also awarded the Prize for the Best Manuscript (最佳論文獎) by British Accounting Review in 1997.

Mr. Feng Bing (馮兵) is an Independent Non-executive Director of the Company and currently an executive director and the deputy general manager of China Financial and Consulting Company (中華財務諮詢公司). Mr. Feng joined the Company in September 2004. He obtained his bachelor degree in computer software from Northwestern Polytechnical University, his master degree in engineering from Calculation Technology Research Institute of Chinese Academy of Sciences (中國科學院計算技術研究所) and his master's of science degree in finance from the School of Management at Syracuse University. He was a part-time tutor in optional practical training of the Faculty of Commerce at Syracuse University and a senior manager of Deloitte Touche Tohmatsu in the United States.

Mr. Wang Jialu (王家路) is an Independent Non-executive Director of the Company and a partner of Commerce & Finance Law Offices (通商律師事務所). Mr. Wang joined the Company in September 2004. He completed his course for master degree in business administration from Guanghua Management College of Beijing University and the course for juris doctor from Marburg University of Germany, and received his MBA degree from Beijing University and the LLM degree from the law school of Marburg University of Germany. He is an arbitrator in the Beijing Arbitration Commission (北京仲裁委員會) and an adjunct lecturer for master degree course in the Law Faculty of Beijing University.

Mr. Zha Jianqiu (查劍秋) is an Independent Non-executive Director of the Company. He is currently the chairman of Sinohope Certified Public Accountants (北京首華立信會計師事務所), a chief accountant, a senior accountant and is qualified as a CPA and a CPV registered in China. Mr. Zha joined the Company in September 2004. He graduated from Guanghua Management College of Beijing University with a MBA degree in business administration. Mr. Zha worked at the Personnel and Education Division of the National Audit Office of the People's Republic of China (國家審計署), and was the departmental deputy manager and the deputy director (deputy chief accountant) of China Huajian Audit Firm (中國華建審計事務所). From 2001 and 2003, he was the deputy director of Tianzhi Zixin Accounting Firm (天職孜信會計師事務所) and the head of its management and consulting department.

Other senior management

Mr. Wang Ximin (王西民) was appointed as an assistant to the president of the Company with effect from 10 September 2004. He is responsible for the production and operation management of the Company. Mr. Wang had joined the Company in September 1978. Mr. Wang received his bachelor degree in electrical vacuum devices from Xian Jiaotong University and his master degree in business administration (MBA) from the Shaanxi MBA College (陝西工商管理碩士學院) in 2001. He is a senior engineer. Prior to joining the Company, Mr. Wang has been acting as the head of the Production Department of IRICO Group Corporation since April 2001. Before that, he was appointed as the No. 1 deputy director of the Technology Department of Shaanxi Color Picture Tube Plant, the manager of Caihong Sales Company under CPT Plant and the deputy head of the Technology Center of CPT Plant.

Mr. Zhang Chunning (張春寧) is a Joint Company Secretary with effect from 10 September 2004. He is responsible for the board affairs, securities management, legal and investors' relationship of the Company. Mr. Zhang graduated from the Faculty of Chemistry at Northwestern University in 1985 with a bachelor degree in science (chemistry) and from Xian Jiaotong University with a master degree in management (business administration). He is now pursuing his doctorate education in management (business administration) at Xian Jiaotong University, with studies on relevant financial, business strategy and marketing issues. Mr. Zhang is fairly conversant in English, and is knowledgeable and experienced in market issues. He has in particular 16 years of business and management experience in the colour picture tube industry. He joined the Company since 1985, and understands the business and daily operations of the Company. Mr. Zhang has assumed the position of general manager of Shaanxi Rainbow Phosphor Materials Co., Ltd (陝西彩虹熒光材料有限公司) since October 1995. Before that, he was the deputy officer and officer of the No. 2 Factory under CPT Plant, the acting factory manager and factory manager of Caihong Phosphor Factory under CPT Plant. Mr. Zhang is not the company secretary of A Shares company.

Mr. Zhang Junhua (張君華) was appointed as Vice President of the Company with effect from 5 August 2005. He is responsible for management on the Company's manufacturing .Mr. Zhang joined the Company in December 1984. He graduated from Shaanxi Mechanical College with a bachelor's degree in machinery manufacturing and is a senor engineer. At present, he serves as chairman of Xi'an New Century Club, chairman and general manager of Xianyang IRICO Digital Display Technology Co., Ltd and chairman of Xi'an Caihui Display Technology Co., Ltd. Before that, he had acted as deputy head and head of Metering &Energy-Conservation Department of No. 2 CPT Factory under CPT Plant, assistant to the general manager, the deputy general manager, general manager and vice chairman of IRICO Display Devices Co., Ltd.

Mr. Li Miao (李淼) was appointed as Vice President of the Company with effect from 5 August 2005.He is responsible for the technology and quality management of the Company. Mr. Zhang joined the Company in July 1985. He graduated from Xian Jiaotong University with a bachelor's degree in electronic vacuum and is a senor engineer. He was the vice director, director of electron gun workshop, director of technology section, director of planning section, director of front assembly workshop, vice factory director and factory director of No.1 CPT factory under CPT plant as well as general manager of IRICO Display Technology Co., Ltd.

Other senior management *(continued)*

Mr. Ng Yuk Keung (吳育強) was appointed as a Joint Company Secretary and the Company's qualified accountant with effect from 26 November 2004. Mr. Ng graduated from The University of Hong Kong with a bachelor degree in management studies and economics, and a master degree in global business management and E-commerce. Mr. Ng is a professional accountant and a member of the Hong Kong Institute of Certified Public Accountants. He worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. Mr. Ng was the chief financial officer of the International School of Beijing-Shunyi (北京順義國際學校) from 2001 to 2003, and has been retained by Australian Business Lawyers as a special consultant on accounting matters since 2004. Mr. Ng had been involved in many initial public offerings of PRC enterprises when working with PricewaterhouseCoopers, and had organized seminars on fund raising exercises in the PRC.

Supervisors

Fu Jiuquan (符九全)	37	Shareholder Supervisor and Chairman of the Supervisory Committee
Niu Xinan (牛新安)	45	Shareholder Supervisor
Zhang Weichuan (張渭川)	52	Employee Supervisor
Sun Haiying (孫海鷹)	63	Independent Supervisor
Wu Xiaoguang (吳曉光)	49	Independent Supervisor

Mr. Fu Jiuquan (符九全) was appointed as the Chairman of Supervisory Committee of the Company with effect from 5 August 2005 and currently the chief accountant of IRICO Group Corporation. Mr. Fu joined in July 1990 the Company. Mr. Fu graduated from Guilin Electronic Industry College (桂林電子工業學院) with a bachelor degree in finance and accounting. He is a senior accountant. He was appointed as the director of the Finance Division of CPT Plant and the manager of the Assets Finance Department of IRICO Group Corporation.

Mr. Niu Xinan (牛新安) had resigned from his office as the chairman of the Supervisory Committee of the Company. Mr. Niu joined the Company in August 1981. He received his bachelor degree in the administrative management from Northwestern University and is a senior engineer. Mr. Niu has been acting as the party's vice-secretary and secretary to the disciplinary committee of IRICO Group Corporation. In June 2002, he was elected as the chairman of the labor union of IRICO Group Corporation. Before that, Mr. Niu was the factory manager of No. 1 CPT factory under Shaanxi Colour Picture Tube Plant and the deputy director of its design institute, the manager of Display Devices Department and the factory manager of No. 1 CPT factory under Shaanxi Colour Picture Tube Plant, the factory manager of the Inner Mongolia Television Factory (內蒙古電視機廠) and the deputy factory manager of CPT Plant. Mr. Niu has extensive corporate operation and management experience in the Chinese CPT industry.

Supervisors *(continued)*

Mr. Zhang Weichuan (張渭川) was appointed as an employee Supervisor with effect from 10 September 2004. He is the manager of the Strategic Planning Department of the Company. Mr. Zhang had joined the Company in August 1978 and is currently the head of the Technology and Quality Department of the Company. He graduated from Northwestern Telecommunication Engineering College (西北電訊工程學院) with a bachelor degree in electrical vacuum devices. He is a senior engineer at a researcher level. He was the director of the Quality Assurance Department of CPT Plant, the deputy chief engineer of CPT Plant and the manager of the Technology and Quality Department of the IRICO Group Corporation.

Mr. Sun Haiying (孫海鷹) was appointed as an independent Supervisor with effect from 10 September 2004 and is currently the head and a professor of the Environmental Science and Engineering Technical Centre of Xian Jiaotong University, a member of the Standing Committee of the Chinese People's Political Consultative Conference and the head of the Department of Science and Technology of Shaanxi Province, an adjunct professor of the Institute for Enterprises of the Hong Kong Polytechnic University. Mr. Sun graduated from the Northwestern University in geography and was director of the Shaanxi Province Meteorological Bureau (陝西省氣象局), the director of Shaanxi Province Science and Technology Department (陝西省科學技術廳). He was a group leader of the Planning Strategy Study Group under the State Mid- and Long-term Science and Technology Development Planning Team (國家中長期科學和技術發展規劃領導小組的規劃戰略研究專題組) in August 2004.

Ms. Wu Xiaoguang (吳曉光) was appointed as an independent Supervisor with effect from 10 September 2004. She is currently a deputy professor of the Accounting and Finance Department of the Management Faculty at Xian Jiaotong University. She received her bachelor degree in economics from the Economic Management College of Northwestern University. She was a graduate majoring in accounting in management school of Xian Jiaotong University, and is studying MBA programme in the Hong Kong Polytechnic University. Ms. Wu is a part-time professor of the Chinese (Hainan) Reform and Development Research Institute (中國海南改革發展研究院), the chairman and general manager of Xian Wanguantong Financial Management Consulting Co., Ltd. (西安萬貫通財務管理諮詢有限責任公司), an expert consultant of Shaanxi Province Venture Capital Association (陝西省創業投資協會), and the chief financial consultant of Shanxi Gaoping Xinggao Coking Corporation (山西高平市興高焦化集團公司), Shanxi Zongheng Management Consulting Co., Ltd. (山西縱橫管理顧問有限公司) and Xian Jingwei Drilling Equipment Manufacturing Co., Ltd. (西安涇渭鑽探機具製造有限公司) Ms. Wu is the chief editor of a MBA teaching material "Theory and Practice of Taxation" (《稅收理論與實務》) and was awarded an outstanding prize of teaching in Shaanxi Province (陝西省教學成果特等獎).

Joint Company Secretaries

Mr. Zhang Chunning (張春寧) was appointed as a Joint Company Secretary with effect from 10 September 2004, and his biographical details are set out above.

Mr. Ng Yuk Keung (吳育強) was appointed as a Joint Company Secretary with effect from 26 November 2004, and his biographical details are set out above.

Qualified accountant

Mr. Ng Yuk Keung (吳育強) was appointed as the Company's qualified accountant with effect from 26 November 2004, and his biographical details are set out above.

Report of the Directors

The Board hereby presents the report of the Directors and the audited accounts of the Group for the year ended 31 December 2005 to the shareholders.

Principal operations

The Group is principally engaged in the production and sales of CPTs and CPT components.

Results and financial status

The annual results of the Group for the year ended 31 December 2005 and its financial status as at the same day prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") are set out on page 67 to page 133 of this annual report.

Dividend

The Company's original dividend policy will remain unchanged. In light of the operating loss in 2005, the Board resolved not to distribute any final dividend.

Five year financial summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five years, as extracted from the audited financial statements and adjusted (in applicable), is set out in page134 of this annual report.This summary does not form a part of the audited financial statements.

Property, plant and equipment

Details of the movement of property, plant and equipment of the Group in the year are set out in note 5 to the financial statements.

Share capital

Details of the changes in the Company's share capital, together with the reasons therefore, are set out in note 15 to the financial statements.

Purchase, redemption and sale of shares of the Company

Neither has the Company nor any of its subsidiaries purchased, redeemed or sold any of its shares during the year.

Reserves

Details of the movement of reserves of the Company and of the Group during the year are set out in note 16 to the financial statements.

Major customers and suppliers

The percentage of purchase from and sales to the major suppliers and customers of the Group is set out as follows:

Purchase

- largest supplier 5%
- five largest suppliers 14%

Sales

- largest customer 18%
- five largest customers 55%

None of the directors, their respective associates or any shareholder who, as far as the directors are aware, holds 5% or more of the Company equity interests had any interest in the above-mentioned major suppliers and customers.

Directors and Supervisors

The particulars of Directors and Supervisors during the year and up to the date of this report are set out in page 25 to 31 of this annual report.

Re-election of Directors and Supervisors

The existing Directors and Supervisors of the Company were elected at the general meeting held on 9 September 2004, with a term of 3 years. In August 2005, Chairman Mr. Ma Jinquan resigned due to his retirement. Mr. Niu Xingan was accordingly nominated as executive director candidate by the Board and Mr. Zhang Zhankui was nominated by the Supervisory Committee as supervisor candidate, subject to the approval by the forthcoming general meeting. Other Directors and Supervisors will remain in office.

Remuneration of Directors and the five highest paid individuals

Details of the remuneration of directors and the five highest paid individuals of the Group are set out in note 26 to the financial statements.

Management contracts

Save for the contracts in relation to connected transactions as stated in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Share Appreciation Rights Plan

Pursuant to the Share Appreciation Rights Plan of the Company (details of which were set out in the Company's prospectus dated 8 December 2004), the following Directors, Supervisor and senior management members were granted share appreciation rights by the Company as follows:

Name	Number of Share Appreciation Rights (Shares)	Note
Xing Daoqin	800,000	Director
Tao Kui	800,000	Director
Guo Mengquan	600,000	Director
Zhang Shaowen	600,000	Director
Yun Dajun	600,000	Director
Zhang Weichuan	320,000	Supervisor
Zhang Chunning	400,000	Senior Management
Ng Yuk Keung	400,000	Senior Management
Wang Ximin	400,000	Senior Management
Zhang Junhua	320,000	Senior Management
Li Miao	320,000	Senior Management

Directors' and Supervisors' equity interest

Save as to the interests mentioned in the section headed "Share Appreciation Rights Plan" above, as at 31 December 2005, none of the Directors, Supervisors or senior management members of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which shall be recorded in the register of members required to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies. During the year, none of the directors, supervisors or senior management members of the Company or their spouses or children under the age of 18 held the right to purchase the share capital or debentures of the Company, neither did they exercise such right.

Directors' and Supervisors' interests in contracts

At end of the year and any time during the year, save for the service contract in relation to the Company's business, none of the Company, its holding companies or subsidiaries or of the Group entered into any material contract in which the Director or Supervisor of the Company held, either directly or indirectly, any significant interest.

Interests and short positions of Directors, Supervisors and Senior Management

Save as to the interests mentioned in the section headed "Share Appreciation Rights Plan" above, as at 31 December 2005, none of the Directors, Supervisors, chief executive or senior management members of the Company or their respective associates had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and / or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which any such directors, supervisors, chief executive or senior management member was taken or deemed to have under such provisions of the SFO), or which was otherwise required to be entered in the register of interests to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in force as at 31 December 2005.

Interests and short positions of substantial shareholders and other persons

So far as the Directors are aware, each of the following persons, not being a Director, Supervisor, chief executive or member of the Company's senior management, had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 31 December 2005 and as entered in the register of interests to be kept pursuant to section 336 of the SFO:

IRICO Group Corporation had interests in 1,455,880,000 Domestic Shares of the Company (representing 100% of the Domestic Share capital), whereas HKSCC Nominees Limited had interests in 484,027,990 H Shares of the Company (representing 99.74% of the H Share capital).

Notes:

As at 31 December 2005, based on the information available to Directors and so far as the Directors are aware, HKSCC Nominees Limited held 484,027,990 H Shares, among which:

J. P. Morgan Chase & Co. through its controlled corporations had interests in 35,464,000 H Shares of the Company (representing approximately 7.31% of the H Share capital).

Pictet Asset Management on behalf of Pictet Funds Asian Equities had direct interests in 33,742,000 H Shares of the Company (representing approximately 6.95% of the H Share capital).

Derby Steven P., Goldfarb Lawrence and Lamar Steven M. through their controlled corporations had interests in 49,554,000 H Shares of the Company (representing approximately 10.21% of the H Share capital).

Morgan Stanley through its controlled corporations had interests in 83,980,000 H Shares of the Company (representing approximately 17.30% of the H Share capital) and a short position in 73,000,000 H Shares of the Company (representing approximately 15.04% of the H Share capital).

Designated deposit and overdue time deposit

As of 31 December 2005, the Group had no designated deposits in any financial institutions in the PRC. All of the Group's bank deposits are lodged in commercial banks in the PRC, and are in compliance with the relevant laws and regulations.

Employees

As at 31 December 2005, the Group had 18,289 employees with various talents, of whom approximately 3.2% were management and administrative personnel, 5.9% were technological personnel, 0.6% were accounting and audit personnel, 0.6% were sales and marketing personnel, and 86.7% were production employees. The employment and remuneration policy of the Company remained the same as set out in the Company's prospectus dated 8 December 2004. With full enthusiasm in work, the Group's employees are committed to ensure the high quality and reliability of products and services.

Connected transactions

For the year ended 31 December 2005, there were various continuing connected transactions between the Group and IRICO Group Corporation, Xian Guangxin Electronic Co., Ltd. ("Xian Guangxin"), IRICO Display Technology Co., Ltd. ("IRICO Display"), Xianyang IRICO Electronics Shadow Mask Co., Ltd. ("IRICO Shadow Mask"), Shaanxi IRICO Phosphor Material Co., Ltd. ("IRICO Phosphor"), Xianyang Cailian Packaging Material Company Limited ("Xianyang Cailian"), details of which are set out in the Company's prospectus dated 8 December 2004.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Stock Exchange has granted to the Company a waiver from strict compliance with the otherwise applicable announcement and / or independent shareholders' approval requirements in connection with these continuing connected transactions (the "Waiver").

Connected transactions *(continued)*

For the year ended 31 December 2005, the approved annual cap and the actual revenue or expenditure in respect of each continuing connected transactions are set out below:

Item	**Approved annual cap for 2005** *RMB'000*	**Actual revenue or expenditure for 2005** *RMB'000*
Supply of fuel, coal, industrial chemicals products and raw materials to IRICO Group Corporation	90,250	54,589
Supply of parts and raw materials to IRICO Display, IRICO Phosphor and IRICO Shadow Mask	666,221	655,490
Purchase of foam plastics, gloves, wood brackets and raw materials from IRICO Group Corporation	224,654	133,800
Purchase of phosphor and shadow mask from IRICO Phosphor and IRICO Shadow Mask	206,793	129,990
Purchase of materials from Xianyang Cailian	62,049	58,958
Utilities obtained from IRICO Group Corporation	572,827	444,582
Social and ancillary services obtained from IRICO Group Corporation		
(a) Schools	10,236	9,278
(b) Social welfare facilities	2,814	2,786
(c) Security services	800	—
(d) Environmental hyginene and landscaping services	1,200	1,200
Rental payable to IRICO Group Corporation	40,739	30,206
Land use rights leasing fees payable to IRICO Group Corporation	4,218	4,218
Equipment leasing fees payable to Xian Guangxin	1,500	750
Trademark licensing fees payable to IRICO Group Corporation	6,450	3,902

Connected transactions *(continued)*

The independent non-executive Directors had reviewed these continuing connected transactions and confirmed to the Board that these transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had provided a letter to the Directors of the Company confirming that the continuing connected transactions:

(1) had received the approval by the Board of the Company;

(2) were in accordance with the pricing policies of the Company;

(3) had been entered into in accordance with the relevant agreements governing these transactions; and

(4) had not exceeded the caps set out in the Waiver.

In respect of these continuing connected transactions, the Company confirmed that it had complied with the relevant requirements set out in the Waiver and Chapter 14A of the Listing Rules.

Bank loans

As at 31 December 2005, details of bank loans of the Group are set out in note 22 to the financial statements.

Pre-emptive right

There are no provisions for pre-emptive rights under the Company's articles of association or relevant laws and regulations which could oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Subsidiaries

Details of the subsidiaries of the Company are set out in note 8 to the financial statements.

External guarantee

The Group does not have any external guarantee during the year ended 31 December 2005.

Provision for Impairment of Property, Plant and Equipment

In 2005, drastic changes occurred in the CPT industry. In particular, the severe adverse impact of flat screen display device on the traditional CPT industry was far beyond the expectation of the Company and many analyst organisations. In light of this, the Board appointed an independent professional valuer to evaluate the value of the production facilities and construction in progress. A provision for impairment of property, plant and equipment of the Group amounting to approximately RMB567,659,000 was made for 2005, of which a provision for diminution of value amounting to approximately RMB320,325,000 was made for K line planned for production of super large screen high definition flat CPTs, and provisions for diminution of value for other production lines amounted to approximately RMB247,334,000.

Globally, investments in TFT-LCD reached US$12.7 billion in 2005, hitting a new record. The subsequent production capacity imposed tremendous pressure on the traditional CRT television market. With several high generation LCD production lines in the world gradually commencing production, large and super-large screen CRT television sets stood more severely hit than medium and small CRT television sets. According to Stanford Company's report in the first quarter of 2006, during the first quarter of 2005, the global average price of 30"-34" LCD television sets fell 15.7% from the previous quarter, dropping below the sweet spot of US$2000 (such decrease in price took place at least one year in advance than was forecasted by Stanford Company two years ago). The price decrease stimulated strong global demand for LCD television sets of such sizes. Under such stimulation, global sales of 30"-34" LCD television sets in the first quarter of 2005 reached almost 60% of the sales in the full year of 2004. Such sales far exceeded the forecast made by Stanford Company just a quarter before.

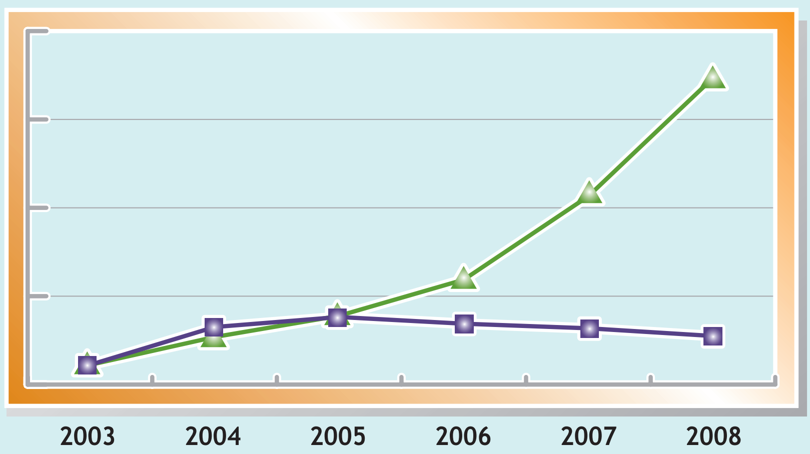
With the continuous price decrease of LCD television sets, in the fourth quarter of 2005, the ratio of the selling prices of LCD television sets of the above sizes to those of 32" 16:9 flat screen CRT television sets fell near the significant psychological threshold ratio of 2:1. The replacement effect coming from LCD television sets in the above size range became obvious. In 2005, sales of 30"-34" LCD television sets in the United States exceeded, for the first time, those of CRT flat screen television sets of such sizes. In Japan, the ratio between the two even climbed to 4.23:1.

In China, the replacement effect of flat screen television sets on CRT television sets, especially on super-large screen CRT television sets, was also far beyond the general expectation of the Company and organizations preparing industry forecast. According to the latest forecast by Stanford Company in the first quarter of 2006, the steady growing trend of the 30"-34" flat screen CRT television market in China is experiencing fundamental reversing changes. Not only has Stanford Company made fundamental revisions to its forecast regarding 30"-34" CRT and LCD television sets, but similar revisions have been made by Displaysearch, another organization in America preparing industry forecast.

The Company is of the opinion that, based on the trend of change in the television set industry in 2005, the speed at which LCD television sets are replacing CRT television sets in domestic and foreign markets, especially super-large screen CRT television sets larger than 30", has far exceeded the general prediction by the Company and the whole industry. Under the continuous threat from FPD television sets, the trend of the super large CRT television set market has experienced fundamental reversing changes that are beyond the control of the CRT industry.

Provision for Impairment of Property, Plant and Equipment *(continued)*

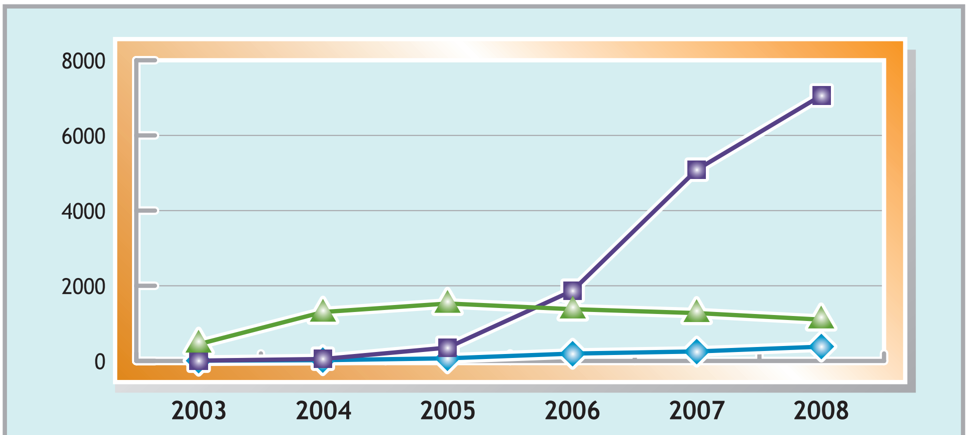
Forecast, and revisions to forecast, regarding the 30"-34" CRT television set market in China by Stanford Company in 4th Quarter of 2004 and 1st Quarter of 2006 ('000 sets)



	2003	2004	2005	2006	2007	2008
04Q4 Prediction-CRT	446	1,076	1,557	2,373	4,263	6,938
06Q1 Prediction-CRT	446	1,302	1,528	1,377	1,273	1,099

Provision for Impairment of Property, Plant and Equipment *(continued)*

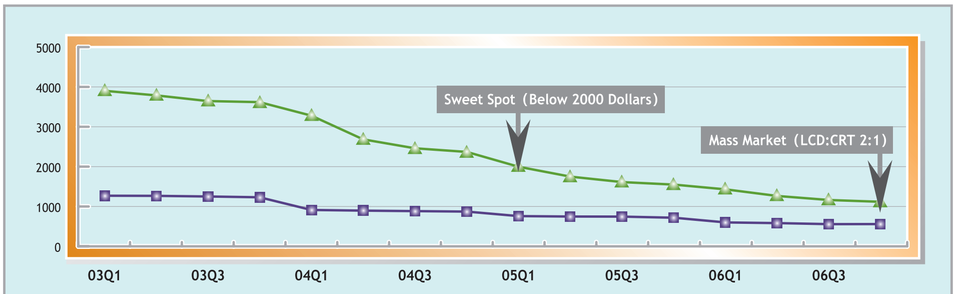
Forecast, and revisions to forecast, regarding the 30"-34" LCD television set market in China by Stanford Company in 4th Quarter of 2004 and 1st Quarter of 2006 ('000 sets)



	2003	2004	2005	2006	2007	2008
04Q4 Perdiction-LCD	8	21	70	196	253	380
06Q1 Perdiction-LCD	8	52	356	1,868	5,094	7,067
06Q1 Perdiction-CRT	446	1,302	1,528	1,377	1,273	1,099

Provision for Impairment of Property, Plant and Equipment *(continued)*

Trend of change in prices of 32" LCD and 32" 16:9 flat CRT television sets in the global market (US Dollars)



	03Q1		03Q3		04Q1		04Q3		05Q1		05Q3		06Q1		06Q3	
32-LCD	$3,903	$3,788	$3,645	$3,618	$3,279	$2,684	$2,460	$2,369	$1,997	$1,749	$1,612	$1,549	$1,429	$1,263	$1,162	$1,117
32W-CRT	$1,270	$1,267	$1,251	$1,231	$913	$896	$884	$872	$759	$748	$746	$718	$600	$583	$577	$559

Source: Stanford Company, report on global TV market in 2006Q1, and amounts of each quarter in 2006 are predicting data.

Forecast, and revisions to forecast, regarding the 30"-34" television set market in China for year 2006 by Displaysearch (Unit: '000 set)

	2004 Q4 Prediction	2006 Q1 Prediction
2008 LCD 30-34"	1,278.4K	5,531.7K
2008 CRT 30-34"	5,711.4K	1,021.8K

Source: Displaysearch in America

In light of the significant adverse changes in the market of 32" - 36" super-large screen high definition flat CPTs orginally planned for production by K Line, and having regard to the fact that the 36" 16:9 CPTs have completely lost its market and that there is only a small market for 32" and 34" CPTs, to minimise losses, the Company has suspended production in K line. After taking into account conditions regarding market, costs and adjustments of product mix, the Group will to the largest extent possible use K line's production capacity for the development of appropriate products.

Material litigation

Baystar Capital II, LP et al. v. Core-Pacific Yamaichi International (HK) Ltd. et al., Case No 05 1091 ABC (CWx) (filed in the United States District Court for the Central District of California) (the "Baystar Litigation"). On or about 11st February 2005, BayStar Capital Management, LLC and BaystarCapital II, LP (hereinafter collectively referred to as "Baystar"), a holder of the Company's H shares, commenced a litigation against Core-Pacific Yamaichi International (H.K.) Limited, et.al (hereinafter referred to as "CPYI"), one of the underwriters that offered the Company's H shares to investors in the United States pursuant to Rule 144A of the Securities Act of the USA. Baystar alleges that it entered into a strategic business development agreement with CPYI, pursuant to which CPYI acted as an investment consultant to Baystar in the greater China area. Baystar claims that CPYI breached the agreement and its fiduciary duties to Baystar. In addition, Baystar alleges that CPYI made material misrepresentations and omissions to Baystar, in violation of United States federal and state securities laws and the common law. Baystar has alleged no claims against the Company.

On or about 20th May 2005, CPYI commenced a third-party lawsuit against the Company and the lead underwriter of the Company, as part of the Baystar Litigation. CPYI seeks contractual and common law indemnification and / or contribution from the Company in the event that CPYI is found liable to Baystar. A copy of the third-party complaint was served on Law Debenture Society on or about 11th June 2005. The Company has retained Jones Day to represent the Company in the litigation. On 18th August 2005, Jones Day filed a motion to dismiss the third-party complaint in its entirety. On 13th October 2005, the Court granted in part and denied in part the motion to dismiss. Thereafter, on 7th November 2005, the Company filed an answer to CPYI's claims, denying all liability. Pre-trial discovery has commenced and is currently underway. Under the discovery schedule presently in effect, all discovery is to be completed by 1st June 2006. The final pre-trial motion is scheduled for 16th October 2006 and trial is set for 31st October 2006.

On 21st April 2006, the Company filed a motion for summary judgment, seeking dismissal of the Third-Party Complaint in its entirety, because no party has identified a single material misrepresentation or omission made by the Company in the Offering Circular. The Company anticipates that the motion will be briefed and submitted to the Court on or about 15th May 2006. The Company denies that CPYI's claims have any merit and will defend itself vigorously.

Code on Corporate Governance Practices

The Board has reviewed the documents regarding the Company's adoption of relevant corporate governance, and is of the opinion that they have met the principles and code provisions set out in the Code on Corporate Governance Practices in the Listing Rules.

The Directors are not aware of any information that would reasonably reflect the non-compliance of the Company or any of the Directors with the Code. The Board considers that the Company has fully complied with the principles and code provisions set out in the Code.

Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors (the "Model Code"). Having made specific enquiry of all Directors, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

Public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under Rule 34A in Appendix 16 to the Listing Rules.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board
Xing Daoqin
Chairman

Xianyang, the PRC
24 April 2006

Report of the Supervisory Committee

Dear shareholders,

The Supervisory Committee was established on 9 September 2004. During the year, all members of the Supervisory Committee have honestly, duly and diligently performed their duties in compliance with the Company Law of the People's Republic of China, the Listing Rules and the Articles of Association of the Company.

The Supervisory Committee participated in the Board meetings and Audit Committee and the significant events, reviewed the financial, daily management and operating activities of the Company and provided their opinions. The Supervisory Committee has found no detriment to the interests of the shareholders and the Company or breach of the Articles of Association and relevant laws.

The Supervisory Committee has reviewed the report of the Directors, audited accounts and profit distribution plan and other matters to be proposed at the 2005 annual general meeting and is of opinion that there is no irregularities.

The Supervisory Committee has watched over members of the Board and senior management in performing their duties, and is of opinion that members of the Board, president and other senior management members have been performing their duties in a diligent and honest manner and in the interests of the shareholders and the Company.

In 2005, the Company experienced unprecedented difficulties and challenges and, for the first time, incurred a noticeable loss, due to the increasing substitution effect of the flat screen television sets' rapid development on CPTs, the constantly declining CPT prices and the increase in certain raw material prices. The Supervisory Committee showed its understanding of the operating environment facing the Company.

The Supervisory Committee believes that the CPT business, capitalising on advantageous performance and prices, will enjoy a considerable market share within a period of time and even a moderate growth in certain market. The Company will continue to horn its competitive edge and increase its growth through cost reduction, marketing reinforcement and technology upgrading. The Supervisory Committee is confident in the prospect of the Company and will proceed to carry out effective supervision on the operation of the Company to safeguard the interests of the shareholders as a whole and the Company.

By order of the Supervisory Committee
Fu Jiuquan
Chairman of the Supervisory Committee

Xianyang, the PRC
24 April 2006

Corporate Governance Report

1. Corporate Governance Practices

The Company is committed to establish a sound, solid and sensible corporate governance framework to constantly improve its corporate governance, where emphasis is attached to (1) full disclosure of its corporate governance practices for enhanced transparency to shareholders; and (2) improvement of the internal control system by reviewing the Company's corporate governance practices in accordance with Code on Corporate Governance Practices (the "Code") with effect from 1 January 2005 to cater for the constant development and evolvement of corporate governance.

The Code sets out the principles of good corporate governance and two levels of recommendation, namely, Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and Recommended Best Practices, which are for guidance only, save that issuers are encouraged to comply with. The Board has reviewed the Company's corporate governance practices. For the year ended 31 December 2005, the Company has adopted all the principles and Code Provisions and nearly all the Recommended Best Practices set out in the Code.

The Company's corporate governance framework incorporates all the Code Provisions and nearlly all the Recommended Best Practices in the Code. The Company's code on corporate governance practices includes, without limitation to, the Articles of Association passed at the shareholders' general meeting on 9 September 2004 and Work Rules for the Board of the Directors, Organisation Rules for the Audit Committee, the Articles of the Nomination Committee, Organisation Rules for the Strategic Committee and Organisation Rules for the Remuneration Committee passed at the Board meeting on 25 August 2005. All the documents mentioned above are set out on the Company's website. The Board also formulated Management Methods for Information Disclosure, Management Mechanism for Investor Relations and Management Mechanism for Implementation of Resolutions of the Board of Directors as relevant work rules of the Company.

The Company's code on corporate governance practices exceeds the requirements of the Stock Exchange and is more strict than the Code Provisions set out in the Code in many aspects, which mainly include the following:

- Apart from the Audit Committee and the Remuneration Committee, the Board set up another two governance committees, namely, the Nomination Committee and the Strategic Committee.

- Apart from one non-executive director, all other members of the Audit Committee are independent non-executive directors.

1. Code on Corporate Governance Practices *(continued)*

- More than 4 Board meetings were held in the financial year ended 31 December 2005.

- Each year, the President submits the Work Report to the Board, personally reporting the details of the management's compliance with the Company's internal control system, regulations and work process.

2. Board of Directors

Directors

As at 31 December 2005, the Board consisted of 11 directors including 5 executive directors, 5 independent non-executive directors and 1 non-executive director. All directors shall resign from the Board at the third annual general meeting after their appointment and are eligible for re-election. New directors are subject to shareholders' election at the first Shareholders' general meeting after their appointment. Each new director will receive a specific inauguration notice prepared by the Board, including notice of applicable laws and regulations and the chapters in the Listing Rules in relation to directors' duties, as well as an introduction to the Company's business and development. Biographic details of the directors are set out in the section "Profile of Directors, Supervisors and Senior Management" in pages 25 to 32 of this annual report and on the Company's website. Independent non-executive directors are expressly identified in all corporate communications that disclose directors' names.

Executive director

Xing Daoqin[1]	Chairman
Tao Kui	Vice Chairman
Guo Mengquan[1]	President
Zhang Shaowen	
Yun Dajun	Chief Financial Controller

Non-executive director

Zhang Xingxi	Member of the Audit Committee

Independent non-executive director

Feng Fei	Member of the Audit Committee
Xu Xinzhong	Member of the Audit Committee
Feng Bing	Member of the Audit Committee
Wang Jialu	
Zha Jianqiu	Member of the Audit Committee

1. Mr. Xing and Mr. Guo were appointed as Chairman and President respectively on 5 August 2005. Relevant details are set out in the Company's announcement dated 5 August 2005.

2. Board of Directors *(continued)*

Directors *(continued)*

The Company has complied with the requirements in Rules 3.10(1) and 3.10(2) of the Listing Rules relating to adequate appointments of independent non-executive directors, at least one of which shall have proper professional qualifications or proper accounting or relative financial speciality.

With extensive professional skills and experience, the independent non-executive directors of the Company are able to fully exert their oversight and balance duties to guarantee the interests of the shareholders and the Company as a whole. Five of the six (exceeding one third) non-executive directors are independent non-executive directors. In determining the independence of a non-executive director, for a director to be considered independent, the Board must confirm that such director does not have any direct or indirect material relationship with the Company, and a director who has assumed the office in the Company for more than 9 years is regarded as having no independence. The Board is of the view that all independent non-executive directors have made effective independent judgment and involved in no circumstance set out in Rule 3.13 of the Listing Rules or any other factor which may cast doubt upon their independence.

The Company has made appropriate insurance cover arrangements for the legal actions that may be against directors and the senior management. Each year, the Board reviews the insurance cover arrangements. For all directors' constant professional development and knowledge and skill upgrading, no thorough plan was made nor any fund was budgeted by the Company.

2. Board of Directors *(continued)*

Power of the Board

The Board is responsible for providing leadership and monitoring the Company's affairs. All directors are liable to act in the best interests of the Company and collectively assume the responsibility for overseeing and monitoring the Company's affairs. Non-executive directors have the same responsibilities and obligations as executive directors. The Board makes regular assessment on the management's business prospects and results as well as exercises other power in accordance with the Articles of Association, which mainly includes:

- To oversee the implementation of resolutions passed at shareholders' general meetings;
- To approve the Company's business plans and investment schemes;
- To formulate the Company's annual financial budget schemes;
- To formulate the Company's profit distribution plan;
- To formulate the Company's basic management system;
- To approve the Company's accounting policies and adjustment to the same;
- To approve various announcements including financial statements.

The Board prepares the Company's financial statements and takes the responsibility for the completeness and legitimacy of the financial statements as well as the efficiency of the Company's internal control system and risk management process. The Articles of Association clearly specifies the functions of the Board and the Chief Executive. The Board's authorisation to the management shall be finalised in form of resolutions of the Board. The Board makes periodic reviews on the functions of and the rights authorised to the Chief Executive to ensure such arrangements are proper and in compliance with the Articles of Association.

Annual reports and financial statements

The Board confirms that it has the responsibility for preparation of financial statements for the Company for each financial year, truly and impartially reporting the Group's financial condition and that in preparation of such financial statements, it has complied with applicable accounting standards and adopted proper accounting policies. The Board has made objective and explicit comment on the Company's performance in each annual report and interim report.The Board keeps the Company's accounts, which disclose with reasonable accuracy the Company's financial condition and which enable the Company's preparation of financial statements in compliance with laws, provisions and applicable accounting standards.

The auditors' representation on reporting responsibilities for financial statements is set out in page 66 of the Auditors' Report in this annual report.

2. Board of Directors *(continued)*

Board committees

To ensure sound corporate governance, the Board has established four special committees, namely, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategic Committee, and determined their respective functions in accordance with the principles stipulated in the Code. Each committee shall report their work to the Board. For performance of their duties, the Board committees are entitled to, when necessary, appoint lawyers, investment banks, accountants or other professionals to give their expert opinions. Expenses incurred will be borne by the Company.

Chairman and Chief Executive

The Chairman is responsible for operation and management of the Board while the Chief Executive takes charge of the day-to-day management of the Company's business. To ensure a balanced distribution of functions and authorisations, roles of the Chairman and the Chief Executive are explicitly differentiated with respective duties specified in the Articles of Association. The position of Chairman is assumed by Mr. Xing Daoqin while the position of Chief Executive is taken by Mr. Guo Mengquan. Under the assistance of the Vice Chairman, the Chairman leads and oversees the operation of the Board to ensure the Board's performance being in the best interests of the Company.

Under the assistance of the Vice Chief Executive, the Chief Executive is responsible for managing the day-to-day affairs of the Company, organising and implementing resolutions of the Board and reporting to the Board on the Company's overall operation. As the chief manager of the Company's day-to-day affairs, the Chief Executive is responsible for the annual business plan and investment schemes and formulation of the Company's basic management rules. He/She also takes the direct responsibility for the Company's operation. In strict compliance with the Board's authorisations and resolutions, the management reports to the Board on any decisions or undertakings made by it or seeks prior approvals by the Board.

The Chief Executive, the Vice Chief Executive and the Chief Financial Controller make concerted efforts to collaborate with administrative departments of the Company to ensure the Board's and the Board committees' access to complete, reliable and proper information so that the directors can make decisions with adequate information and to ensure proper implementation of the Board's resolutions. The Chief Executive monitors the Company's operation and financial results with a view to plans and budget and passes on their opinions to the Board on material events. The Chief Executive and the Chief Financial Controller are also executive directors, who keep contact with the Chairman and all directors to ensure their full understanding of the Company's all significant businesses and relevant progress.

2. Board of Directors *(continued)*

Board meetings

The Chairman is responsible for approving agenda of each Board meeting and effectually convenes the Board meeting, taking into consideration, where appropriate, other matters proposed by directors for inclusion in the agenda. Assisted by the Company Secretary, the Chairman seeks to ensure all directors' proper access to accurate, timely and sufficient information on the proposals to be considered by the Board to enable their wise decisions. While a fourteen days' notice of a regular Board meeting is given, the agenda and the meeting documents attached are circulated at least 3 days prior to the holding of a Board meeting or a meeting of any special committee.

The Chairman encourages the directors to be fully engaged in the Board's affairs and make contributions to the Board's function. In addition to regular Board meetings, the Chairman and non-executive directors hold at least one meeting without executive directors' presence each year. During the year under review, such meeting was convened once. The Board adopts sound corporate governance practices and procedures and takes appropriate steps to inspire the directors' open and frank communication so as to ensure non-executive directors' enquires to each executive director and the effective communication between them.

2. Board of Directors *(continued)*

Board meetings *(continued)*

It is expressly provided in the Work Rules for the Board of Directors that, in the event that a substantial shareholder or director of the Company has a conflict of interests in the matter to be considered at the Board meeting, such matter shall not be dealt with by Board committees or by way of circulation. Any director who has a conflict of interests in the matters to be considered shall abstain from voting.

Board meetings are held on a regular basis for at least 4 times each year. In accordance with the Articles of Association, directors, when necessary, may propose to convene an extraordinary board meeting. They may also, when they consider necessary, obtain the Company's information and independent expert opinion, where expenses incurred are borne by the Company. In 2005, the Board convened 6 meetings with an average attendance rate of 93%. The following table shows details about each director's attendance at the annual general meeting, Board meetings and meetings of Board committees in 2005:

Times of attendance / times of meeting

Director	Board Meetings	Meetings of the Audit Committee	Meeting of Remuneration Committee	Meeting of the Chairman and non-executive directors	Annual general meeting
Executive director					
Xing Daoqin	6/6			1/1	1
Tao Kui	6/6		1/1		1
Guo Mengquan	6/6				
Zhang Shaowen	4/6				1
Yun Dajun	6/6				1
Non-executive director					
Zhang Xingxi	6/6	2/2		1/1	1
Independent non-executive director					
Feng Fei	5/6	2/2		1/1	
Xu Xinzhong	5/6	2/2	1/1	1/1	1
Feng Bing	6/6	2/2	1/1	1/1	1
Wang Jialu	6/6		1/1	1/1	1
Zha Jianqiu	5/6	2/2		1/1	1

2. Board of Directors *(continued)*

Joint Company Secretary

The Joint Company Secretary reports to the Board. All directors are entitled to the Joint Company Secretary's services. He / She shall notify the Board the latest information on governance and oversight on a regular basis, assist the Chairman of the Board in preparation of the agenda, and prepare and despatch meeting documents on a timely and comprehensive basis so as to ensure the efficiency and validity of the Board meetings. Under the assist of the Company's lawyer, the Joint Company Secretary is in charge of announcement of annual and interim reports and information disclosure in accordance with the Listing Rules and relevant rules of the Company. He / She makes a regular enquiry to the Company's financial department for information on connected transactions to secure the compliance with Listing Rules in respect of such transactions.

The Joint Company Secretary is also in charge of preparing and keeping minutes of meetings of the Board and the Board committees together with any relevant documents, which will be provided and disclosed to all directors for their inspection at any reasonable time. All matters under consideration including any enquiry and objection by directors shall be minuted in details. In proper time upon close of a meeting, a minute draft shall be despatched to all directors for their modification opinions. In case of any query raised by directors, the Company shall, as soon as possible, take steps to make responses thereto.

Directors' interests

All directors ensure adequate time and energy to handle the Company's affairs and shall, upon their initial appointment, report to the Board in respect of the number and nature of any office assumed by them in other companies or institutions and the term of office, as well as disclose to the Company names of such companies or institutions. If the Board considers a director has a conflict interest in any proposal under consideration, such director shall report his/her interests and abstain from voting and may, when necessary, apply for absence. The Board requires directors to confirm whether there is any connected transaction between the directors or their respective associates and the Company or its subsidiaries at each financial reporting period. Any material transactions relating to connected parties, which have been confirmed, will be disclosed in notes to the financial statements of an annual report.

2. Board of Directors *(continued)*

Securities transactions by directors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors of the Company ("Model Code"). The Modal Code is also applicable to special employees who may have certain price sensitive information that has been not disclosed, including such employees in the Company's subsidiaries and parent company. Upon appointment, any director of the Company is delivered a Model Code. After that, the Model Code is delivered twice a year, namely, one month prior to the Board meeting to approve the Company's interim results and one month prior to the Board meeting to approve the Company's annual results, together with an indicative notice to remind the directors that they may not deal in the Company's shares until the results announcement.

All directors of the Company confirm that as at 31 December 2005, all directors and the special employees who may have certain price sensitive information that has been not disclosed complied with the Model Code and none of the said persons incur any conduct in violation of regulations.

3. Internal Control

Internal control system

The Board is fully in charge of the Group's internal control system. It is responsible for ensuring the Company has adequate internal control systems to monitor its overall financial status, hence avoiding material financial omission or loss. Through its Audit Committee, the Board makes periodic review on the effectiveness of the internal control system.

The Company's internal control system plays a key role in risk management which is crucial for achievement of business objectives. The internal control system and work process is formulated to prevent unauthorised use or disposal of the Company's assets and to ensure the keeping of true and adequate accounting records and relating financial information. While the internal control procedures are designed to manage and properly control, but not remove, the risks of failing to achieve business prospects. The Company's internal control provides reasonable, but not absolute, assurance against material mis-statement or loss.

Each year, the Company reviews the efficiency of the internal control system, which includes control over finance, operation, regulation compliance and risk management. Relevant results have been reported to the Board through executive directors.

3. Internal Control *(continued)*

Internal control system *(continued)*

The Board confirms that the Company has set up procedures and systems for recognising, assessing and managing material operating risks with support from Board committees and the senior management. Based on the evaluations made by the management and the internal audit department of the Company in 2005 and as at the date of approval of this annual report, the Audit Committee believes that the Company's internal control system and accounting system are aimed to enable the security of material assets, recognition and monitoring of the Company's operating risks, execution of material transactions under the management's authorisation and reliable disclosure of financial statements; and that the established control system is functioning constantly to identify, evaluate and manage the material risks faced by the Company. The Board is fully in charge of overseeing the operation of Company's business units.

Personnel with proper experience and skills are appointed to the boards of directors of the Company's subsidiaries and associated companies to attend their board meetings and to oversee the operations of those companies. Monitoring activities include review and approval of business strategies, budgets and plans as well as setting of key business performance targets. The identification, evaluation and report on the likelihood and potential financial impact of material business risks are left to the management of such companies.

Executive directors hold monthly meetings with executive and business senior management members to review the integrated financial status and operations against the budgets and estimation and to estimate and evaluate risk factors so as to formulate and adjust business strategies.

The Financial Controller of the Company has established systems and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget control and are controlled within approval levels for such expenditures being set by reference to each executive's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process. Detailed investment scheme shall be made by the Company's Chief Executive and approval by the Board prior to commitment for material expenditures within the approved budget, and also unbudgeted expenditures.

3. Internal Control *(continued)*

Internal audit

The Company sets up an internal audit department, which oversees the Company's internal governance and conducts independent reviews as to whether the internal control system is adequate and efficient. The audit department is led by the department manager and composed of 8 professionals including internal auditors. Main duties of the internal audit department include:

- To oversee the Company's all operating activities and internal control on a regular basis;

- Together with other business departments of the Company, to carry out periodic audit on the financial status, income and expenses, operations, work process, and fraud investigations of all business units, branches and subsidiaries of the Company.

- To carry out special audit on matters to which the Board or the management attaches special attention.

The internal audit department gives its prudent opinion as to whether the Company's operations have a complete and efficient risk management system, and reports it to the Chairman or directly contacts the head of the Audit Committee. All internal audit reports and opinions are submitted to the Chief Executive, the Chief Financial Controller and other executive directors of the Company as well as the senior management of the department being audited. The audit department also follows up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained between the audit department and the external auditors so that both are aware of the significant factors that may affect their respective scope of work.

The Company has set up a detailed oversight system for handling the price sensitive information for all employees' reference.

3. Internal Control *(continued)*

Risk management

One of the Board's responsibilities is to raise the risk awareness across the Company's business operations. The Board properly implements the operating risk management procedure throughout the Company and formulates policies and procedures which provide a framework for identification and management of risks. The Board fulfils its oversight role over the Company and its subsidiaries in the following areas:

- establishment of the risk appetite, risk profile and risk management strategy of the Company;
- identification, assessment and management of the material risks faced by various business units of the Company;
- review and assessment of the adequacy of the Company's risk management process, system and internal control;
- review and monitoring of compliance with the Company's risk management process, system and internal control including compliance with prudential and legal requirements governing the business of the Company.

The risk management activities include review of detailed financial and operation reports, budgets and business plans provided by the management, review by the Board of actual results against the budgets, ongoing work of the Group's internal audit function and regular business reviews by executive directors and the executive management teams of each core business divisions. While the said procedures are designed to identify and manage the risks which may impose adverse impact on realisation of the Group's business prospects, they do not provide absolute assurance against any material mis-statement or loss.

4. Special Committees under the Board

Audit Committee

The Audit Committee assumes the responsibilities for audit of the Company's financial reports, review of internal control and corporate governance work and provision of relevant advice to the Board. Independent non-executive directors represent four fifths of the members of the Audit Committee. The Audit Committee is chaired by Mr. Zha, an independent non-executive director. Mr. Zha has proper qualifications and financial experience.

4. Special Committees under the Board *(continued)*

Audit Committee *(continued)*

By reference to the recommendations in A Guide for Effective Audit Committees issued by Hong Kong Institute of Certified Accountants and C.3 of the Code, the Board has formulated the Organisation Rules of the Audit Committee, stipulating the functions and duties of the Audit Committee, which is set out on the Company's web-page: http://www.irico.com.cn/cn/investor/guicheng.htm

In 2005, the Audit Committee convened two meetings with an average attendance rate of 100%. The senior management and external auditors were invited to these meetings. In 2005, the committee

- audited the Company's accounts and interim results announcement for the six months ended 30 June 2005, together with the proposals to be approved by the Board;
- audited the Report of the Board of Directors, accounts and the annual results announcement of the Company for the year ended 31 December 2005, together with the proposals to be approved by the Board;
- audited the audit fees and remuneration payable to the external auditors for the year ended 31 December 2005, together with the proposals for the auditors' re-appointment to be approved by the Board;
- audited the Company's implementation of connected transactions in 2005, together with the proposals to be approved by the Board;
- reviewed matters in relation to audit, internal control and financial policies with the senior management and external auditors of the Company.

Apart from two formal meetings, a number of informal discussions were held in respect of the Company's operating risks and financial evaluation in 2005. Entrusted by the Board, the committee is responsible for appointment of international evaluation institutions to re-evaluate the Company's material fixed assets according to market movements. In order to facilitate the direct communication with external auditors and fully perform its role in the Company's governance mechanism, the committee drafted the Regulation on Appointment of Accounting Firms by IRICO Group Electronics Company Limited, which has been approved by the Board. To strengthen its communication with the internal audit department, it will submit the Regulation on Relationship between the Audit Committee and the Internal Audit Department of IRICO Group Electronics Company Limited (Draft) for discussion and consideration to further coordinate the internal audit. The Audit Committee wishes to enhance the communications with external auditors and internal audit department for a more practical monitoring function to safeguard interests of investors and all relating parties.

4. Special Committees under the Board *(continued)*

External auditors

The Audit Committee reviewed the letter from PricewaterhouseCoopers to confirm its independence and objectiveness, held meetings with the firm to discuss the audit scope and fees, and approved scope and fees for any non-audit service provided by the firm at the Company's request.

For the year ended 31 December 2005, remuneration payable to the external auditors amounted to RMB4,700,000, all of which was for audit service. No non-audit service fee was incurred for the year. The audit fee has been approved by the Audit Committee and the Board.

In accordance with the Regulation on Appointment of Accounting Firms by IRICO Group Electronics Company Limited, the Audit Committee is responsible for appointment of external auditors. To ensure the audit quality and a fair price, for the initial appointment, accounting firms up to the Stock Exchange's requirements and relevant PRC rules are invited to submit their project service proposal. Currently, such work is in process. The Company will determine its auditors for the financial year ended 31 December 2006 based on the electing results disclosed, and submit the proposal for appointment of the accounting firm to the Board for discussion and approval, which is subject to the final approval and authorisation by the forthcoming 2005 Annual General Meeting.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Tao Kui and comprises three independent non-executive directors, namely, Mr. Xu Xinzhong, Mr. Wang Jialu and Mr. Feng Bing. The committee is responsible for approval of remuneration policies for all directors and senior management members, including yearly distribution of share appreciation rights pursuant to the Company's share appreciation rights plan. Each year, the committee reviews the current remuneration policy and proposes to the Board to change the remuneration policy and system. It also assists the Company to formulate fair and transparent remuneration policies for directors and senior management and determination of their remunerations. For proposals on remunerations of other executive directors, the Remuneration Committee shall consult the Chairman and Chief Executive and when necessary, professional institutions. The Board and the Company have taken measures to ensure the committee's adequate resources for performance of its duties. Power of the Remuneration Committee has been approved by the Board and set out on the Company's web-page: http://www.irico.com.cn/_info/cn/news_txt_269.htm

4. Special Committees under the Board *(continued)*

Remuneration Committee *(continued)*

Apart from a number of informal discussions, the Remuneration Committee held one meeting in 2005, reviewing the Company's remuneration policies for its directors and senior management including Management Methods on Remuneration of Directors and Senior Management (Draft). Such management methods, together with modification opinion from the committee, will be submitted to the Board for consideration and approval. In addition, the committee discussed the difference between the limitation requirement on remunerations of functionaries in state-owned enterprises stipulated by State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") and market prices, as well as its restrictions and impact on establishment of executive director remuneration incentive mechanism. By doing such, the Remuneration Committee wishes to set up an effective remuneration incentive mechanism within the framework of SASAC's policies.

Remuneration policy for executive directors: The remuneration portfolio policy for executive directors is designed to link executive directors' remunerations with their performance and the Company's commissions to inspire their performance and re-election. In accordance with the Articles of Association, directors may not determine or approve their own remunerations.

Except for Mr. Yun Dajun, the other five executive directors of the Company are the functionaries who fall within the SASAC's management, and hence are subject to Provisional Management Methods for Remunerations of Enterprise Representatives (《中央企業負責人薪酬管理暫行辦法》)and Provisional Assessment Methods for Appraisal of Operating Results of Enterprise Representatives (《中央企業負責人經營業績考核暫行辦法》). These five directors' remunerations consist of basic salary, performance-linked salary and long-term incentive-linked salary. The basic salary is the annual basic income of a functionary, which is determined by reference to the business scale of the enterprise, responsibilities, and the average salary of local enterprises, the industry and the enterprise itself. The performance-basic salary is linked with the operating results appraisal and based on the basic salary, which is determined by reference to the appraisal grade and scores for the annual operating results of the enterprise representative. After the appraisal results are obtained, 60% of the performance-basic salary is paid while the payment of the remaining 40% will be deferred to the second year of re-election or resignation.

Based on their individual performance and the Company's operating status, the Remuneration Committee approved the share appreciation rights to be granted to the executive directors pursuant to the share appreciation rights plan as approved by shareholders.

Remuneration policy for non-executive directors: Remunerations of non-executive directors are subject to approval by the Company's shareholders' general meeting and determined after taking into consideration the complexity of the matters to be handled by them and their duties. Pursuant to the service contract entered into between the Company and the non-executive directors, the Company pays non-executive directors the out-of-pocket expenses incurred in performance of their duties (including attendance at the Company's meetings).

4. Special Committees under the Board *(continued)*

Remuneration Committee *(continued)*

A director's remuneration includes the amount paid by the Company and its subsidiaries for their management of affairs of the Company and its subsidiaries. Remunerations paid to each director of the Company in 2005 are as follows:

(a) Executive directors and Non-executive directors

Unit: RMB

Name	Remuneration and allowances	Housing welfare fund	Retirement benefits contribution
Executive director			
Xing Daoqin	219,435	4,800	8,606
Tao Kui	233,147	5,232	8,606
Guo Mengquan	207,969	4,704	8,606
Zhang Shaowen	205,718	4,704	8,606
Yun Dajun	HK$1,479,558	—	—
Non-executive director			
Zhang Xingxi*	265,380	4,440	13,632

* Remuneration of Mr. Zhang Xingxi derived from IRICO Group Corporation, the controlling shareholder of the Company.

(b) Independent non-executive director

Name	Emolument
Feng Fei	100,000
Xu Xinzhong	100,000
Feng Bing	100,000
Wang Jialu	100,000
Zha Jianqiu	100,000

Nomination Committee

In 2005, the Nomination Committee comprised six directors, namely, Xing Daoqin, Tao Kui, Guo Mengquan, Zhang Shaowen, Xu Xinzhong and Wang Jialu. As such composition was not in compliance with the requirement that non-executive directors shall be in the majority as set out in Recommended Best Practice A.4.4 of the Code, adjustment was made by the Board to it at the 7th Board meeting on 17 March 2006. The current Nomination Committee is chaired by Mr. Xing Daoqin and comprises Tao Kui, Guo Mengquan, Feng Fei, Feng Bing, Xu Xinzhong and Wang Jialu.

4. Special Committees under the Board *(continued)*

Nomination Committee *(continued)*

The committee provides the Board with its advice on appointment of directors, assessment of the Board's composition and re-election of the Board in accordance with certain agreed standards. The relevant standards include a director's proper professional knowledge and experience in the industry, personal integrity and commitment of adequate time.The Nomination Committee is responsible for choosing and recommendation of director candidates, including consideration of recommendations by others and, when necessary, making use of public recruitment.

By reference to the Recommendation A.4 of the Code, the Board formulated the Organisation Rules of the Nomination Committee, specifying the power of the Nomination Committee. The Organisation Rules of the Nomination Committee is set out on the Company's web-page: http://www.irico.com.cn/cn/investor/guicheng.htm

In 2005, the Nomination Committee held several informal discussions in respect of Mr. Ma Jinquan's resignation from his office as the Chairman of the Company, the election of Mr. Niu Xin'an as an executive director and other matters to be approved at the shareholders' general meetings. No formal meetings were held during the year. The Nomination Committee has audited the independence of independent non-executive directors.

5. Investor Relations and Shareholders' Interests

The Company undertakes that it shall make impartial disclosure and full and transparent reporting.The ultimate duty of the Chairman is to ensure efficient communication with the investors and the Board's understanding of the opinions from substantial shareholders. After the Company's annoucenment of its interim and annual results, the Board is committed to provide shareholders with clear and comprehensive results information of the Group by publishing interim and annual reports. The senior management shall preside over presentations and attend the meetings with institute investors and financial analysts for intercommunication in respect of the Company's results and business prospects, which is a regular function of investor relations. In addition, the Company arranges for roadshow for analysts and investors, from time to time, to foster direct communication and understanding between the investors and the management of the Company. Field visits by analysts and investors are welcomed for inspecting plants and business premises of the Company. In 2005, the Company and investors and/or analysts held 12 meetings and 2 roadshows in HK.

The Company Secretary and financial directors are responsible for day-to-day contacts between the Board and substantial shareholders. Investors and the public may access the Company's website for detailed information on the Company's businesses. The Company's interim and annual results announcements can also be downloaded there.

5. Investor Relations and Shareholders' Interests *(continued)*

The Company formulated and implemented the Management Methods on Information Disclosure and the Rules for Investor Relations Management, aiming to further standardise its information disclosure system to ensure the accuracy, completeness and timeliness of information disclosure and provide investors with high-quality services. The Board Office, with the Company Secretary as its head, formulates the procedures for gathering, verification and reporting of internal operating data and other information as well as the procedures for preparation and review of periodic reporting.

The Company encourages shareholders' attendance at shareholders' general meetings and gives a 45 days' notice of such meetings. The Chairman and directors attend the meetings to answer questions about the Company's businesses. All shareholders have rights to request the convening of an extraordinary general meeting and put forward proposals for shareholders' consideration in accordance with the Articles of Association. At the annual general meeting, each matter is put forward in form of a separate proposal and voted by way of poll based on the number of shares. Voting results of the annual general meeting are released in form of announcements and set out on the Company's website. Circulars despatched to shareholders set out the voting procedures by way of poll, and the rights of shareholders to demand voting by poll pursuant to Rule 13.39(4) of the Listing Rules. The chairman of the meeting ensures that all ballots are counted and filed.

According to the information available to the Company and as far as the directors are aware, at least 25% of the Company's total issued share capital is held by public shareholders.

The Company is committed to increase transparency and improve investor relations and has attached much importance to shareholders' responses to this regard. For any inquiry and advice, shareholders can contact the Company Secretary through the hotline (+86 910 333 3858) or by email (zcn@ch.com.cn; wyq@ch.com.cn) or raise the questions at the annual general meeting or the extraordinary general meeting. Inquiry can also be made through the above means to the Company Secretary for procedures concerning convening an annual general meeting or extraordinary general meeting and putting forward a proposal.

By order of the Board
Joint Company Secretaries
Zhang Chunning
Ng Yuk Keung

Xianyang, PRC
24 April 2006

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

TO THE EQUITY HOLDERS OF
IRICO GROUP ELECTRONICS COMPANY LIMITED
(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 67 to 133 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24th April 2006

Consolidated Balance Sheet

As at 31st December 2005

(All amounts in RMB thousands unless otherwise stated)

	Note	**2005**	2004 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	5	**2,921,436**	3,416,190
Leasehold land and land use rights	6	**37,911**	39,496
Intangible assets	7	**13,990**	67,074
Interest in associates	9	**17,339**	18,218
Deferred income tax assets	18	**—**	28,041
Available-for-sale financial assets	10	**24,060**	—
Long-term investments	10	**—**	24,060
		3,014,736	3,593,079
Current assets			
Inventories	11	**671,783**	930,556
Trade receivables	12	**1,474,437**	1,293,961
Other receivables, deposits and prepayments		**46,632**	181,526
Trading securities	13	**—**	4,640
Cash and bank balances	14	**587,838**	1,117,516
		2,780,690	3,528,199
Total assets		**5,795,426**	7,121,278
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**1,941,174**	1,941,174
Other reserves	16	**944,402**	944,402
(Accumulated losses) / retained earnings		**(655,934)**	156,874
		2,229,642	3,042,450
Minority interests		**830,984**	1,128,866
Total equity		**3,060,626**	4,171,316

Consolidated Balance Sheet

As at 31st December 2005

(All amounts in RMB thousands unless otherwise stated)

	Note	**2005**	2004 Restated
LIABILITIES			
Non-current liabilities			
Deferred income	17	**7,819**	11,294
Deferred income tax liabilities	18	**15,698**	18,094
Long-term payables	19	**13,879**	—
		37,396	29,388
Current liabilities			
Trade payables	20	**694,147**	685,339
Other payables and accruals	21	**726,759**	794,117
Current income tax liabilities		**11,695**	21,118
Current portion of long-term payables	19	**4,626**	—
Short-term bank borrowings	22	**1,260,177**	1,420,000
		2,697,404	2,920,574
Total liabilities		**2,734,800**	2,949,962
Total equity and liabilities		**5,795,426**	7,121,278
Net current assets		**83,286**	607,625
Total assets less current liabilities		**3,098,022**	4,200,704

The notes on pages 74 to 133 are an integral part of these financial statements.

Xing Daoqin
Chairman

Yun Dajun
Director

Balance Sheet

As at 31st December 2005

(All amounts in RMB thousands unless otherwise stated)

	Note	**2005**	2004 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,427,234**	1,486,838
Intangible assets	7	**10,472**	21,534
Investments in subsidiaries	8(a)	**1,352,316**	1,812,275
		2,790,022	3,320,647
Current assets			
Inventories	11	**371,683**	487,847
Trade receivables	12	**659,561**	372,650
Other receivables, deposits and prepayments		**19,765**	146,082
Loan to a subsidiary	8(b)	**50,000**	30,000
Cash and bank balances	14	**186,555**	481,465
		1,287,564	1,518,044
Total assets		**4,077,586**	4,838,691
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**1,941,174**	1,941,174
Other reserves	16	**986,153**	986,153
Accumulated losses		**(679,784)**	(38,537)
Total equity		**2,247,543**	2,888,790

Balance Sheet

As at 31st December 2005
(All amounts in RMB thousands unless otherwise stated)

	Note	**2005**	2004 Restated
LIABILITIES			
Non-current liabilities			
Deferred income	17	**961**	1,389
Deferred income tax liabilities	18	**3,614**	2,307
Long-term payables	19	**10,016**	—
		14,591	3,696
Current liabilities			
Trade payables	20	**481,270**	397,236
Other payables and accruals	21	**595,238**	553,976
Current income tax liabilities		**—**	4,993
Current portion of long-term payables	19	**3,339**	—
Short-term bank borrowings	22	**735,605**	990,000
		1,815,452	1,946,205
Total liabilities		**1,830,043**	1,949,901
Total equity and liabilities		**4,077,586**	4,838,691
Net current liabilities		**(527,888)**	(428,161)
Total assets less current liabilities		**2,262,134**	2,892,486

The notes on pages 74 to 133 are an integral part of this financial statement.

Xing Daoqin
Chairman

Yun Dajun
Director

Consolidated Income Statement

For the year ended 31st December 2005
(All amounts in RMB thousands unless otherwise stated)

	Note	**2005**	2004 Restated
Turnover	23	**3,927,500**	4,949,683
Cost of sales (including provision for impairment loss on property, plant and equipment of RMB567,659,000 (2004: Nil))		**(4,357,371)**	(3,896,956)
Gross (loss) / profit		**(429,871)**	1,052,727
Other revenue	24	**37,603**	47,154
Other net income	24	**21,295**	24,745
Selling and marketing costs		**(152,565)**	(113,323)
Administrative expenses		**(278,875)**	(219,008)
Other operating expenses		**(36,968)**	(79,275)
Operating (loss) / profit	25	**(839,381)**	713,020
Finance costs	27	**(70,096)**	(62,966)
Share of profits less losses of associates	9	**(2,479)**	196
(Loss) / profit before income tax		**(911,956)**	650,250
Income tax expense	28	**(48,377)**	(134,468)
(Loss) / profit for the year		**(960,333)**	515,782
Attributable to:			
Equity holders of the Company		**(754,547)**	385,327
Minority interests		**(205,786)**	130,455
		(960,333)	515,782
(Loss) / earnings per share for (loss) / profit attributable to the equity holders of the Company during the year (expressed in RMB per share)	30	**(0.39)**	0.25
Dividend / profit distribution	31	**58,261**	204,923

The notes on pages 74 to 133 are an integral part of these financial statements.

Xing Daoqin
Chairman

Yun Dajun
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005
(All amounts in RMB thousands unless otherwise stated)

		Attributable to equity holders of the Company			Minority Interests	
	Note	Share capital	Other reserves	Retained earnings / (accumulated losses)		Total
Balance at 1st January 2004 - as previously reported		1,500,000	679,758	—	—	2,179,758
Effect of adoption of HKAS 1		—	—	—	1,007,160	1,007,160
Balance at 1st January 2004 - as restated		1,500,000	679,758	—	1,007,160	3,186,918
Profit for the year		—	—	385,327	130,455	515,782
Issue of shares	15	441,174	—	—	—	441,174
Premium on issue of shares		—	299,865	—	—	299,865
Share issurance costs		—	(63,490)	—	—	(63,490)
Transfer to reserves	16	—	23,530	(23,530)	—	—
Contribution from ultimate holding company		—	4,739	—	—	4,739
Profit distribution	31	—	—	(204,923)	(8,749)	(213,672)
Balance at 31st December 2004		1,941,174	944,402	156,874	1,128,866	4,171,316
Balance at 1st January 2005 - as previously reported		1,941,174	944,402	156,874	—	3,042,450
Effect of adoption of HKAS 1		—	—	—	1,128,866	1,128,866
Balance at 1st January 2005 - as restated		1,941,174	944,402	156,874	1,128,866	4,171,316
Loss for the year		—	—	(754,547)	(205,786)	(960,333)
Dividend	31	—	—	(58,261)	(92,096)	(150,357)
Balance at 31st December 2005		1,941,174	944,402	(655,934)	830,984	3,060,626

The notes on pages 74 to 133 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December 2005
(All amounts in RMB thousands unless otherwise stated)

	Note	**2005**	2004
Cash flows from operating activities			
Cash generated from operations	32	**305,353**	814,964
Interest paid		**(69,048)**	(62,966)
Income tax paid		**(32,155)**	(128,628)
Net cash generated from operating activities		**204,150**	623,370
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired		**—**	19,333
Purchase of property, plant and equipment	5	**(445,792)**	(1,313,432)
Proceeds from sale of property, plant and equipment	32	**17,584**	11,494
Proceeds from liquidation of a subsidiary		**1,016**	—
Purchase of intangible assets	7	**(2,942)**	—
Purchase of trading securities		**—**	(117,201)
Proceeds from sale of trading securities		**5,046**	105,808
Interest received	24	**5,986**	5,524
Increase in investment in an associated company		**(1,600)**	—
Dividend received		**—**	396
Net cash used in investing activities		**(420,702)**	(1,288,078)
Cash flows from financing activities	32		
Proceeds from issuance of shares by the Company		**—**	741,039
Proceeds from minority interests injection		**—**	18,768
Proceeds from borrowings		**1,397,942**	1,620,000
Repayments of borrowings		**(1,557,765)**	(1,260,000)
Dividends paid to the ultimate holding company		**—**	(146,084)
(Decrease) / increase in due to related parties and minority interests - non-trade		**(54,311)**	133,560
Decrease / (increase) in pledged bank balance		**21,000**	(21,000)
Dividends paid to the Company's equity holders		**(14,585)**	—
Share issuance costs paid		**—**	(37,073)
Dividend paid to minority interests		**(84,407)**	(35,172)
Net cash (used in) / generated from financing activities		**(292,126)**	1,014,038
Net (decrease) / increase in unpledged cash and cash equivalents		**(508,678)**	349,330
Unpledged cash and cash equivalents at beginning of the year		**1,096,516**	747,186
Unpledged cash and cash equivalents at end of the year	14	**587,838**	1,096,516

The notes on pages 74 to 133 are an integral part of these financial statements.

1. General information of the Group

IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (together the "Group") manufactures, distributes and sells colour picture tubes ("CPTs") and CPT-related components and materials. The Group was incorporated in the People's Republic of China (the "PRC") on 10th September 2004 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation (the "Reorganisation") effective as at 31st December 2003 with details set out in the Accountants' Report to the Company's prospectus dated on 8th December 2004. The Company issued 1,500,000,000 ordinary shares of RMB1 per share to IRICO Group Corporation, the ultimate holding company of the Company, in exchange for the core assets and businesses of IRICO Group Corporation relating to production and sale of CPTs and CPT-related components and materials. In addition, the Company completed its initial public offering and placing of shares on 20th December 2004. As a result, the issued share capital of the Company increased from 1,500,000,000 shares to 1,941,174,000 shares. Gross fund raised amounted to approximately HK$767 million.

The Reorganisation is accounted for using merger accounting as permitted by the Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants (the " HKICPA"). The consolidated income statement for the year ended 31st December 2004 presented the consolidated results of the Company and its subsidiaries as if the Reorganisation was effective at the beginning of the earliest period presented.

These consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24th April 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the available-for-sale financial assets at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4 to the financial statements.

(All amounts in RMB thousand unless otherwise stated)

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of new / revised HKFRS

In 2005, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements. The major and significant effects of the adoption of the new / revised standards and interperations of HKFRS on the Group's accounting policies and amounts disclosed are summarised as below:

(a) The adoption of HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interests, share of net after-tax results of associated companies and other disclosures. Minority interests are now included in equity on the balance sheet and share of profits less losses of associates are presented net of taxation on the income statement. These changes in presentation have been applied retrospectively.

(b) The adoption of HKAS 24 "Related Parties Disclosure" has affected the presentation of related parties transactions and amounts due from / to related parties.

(c) The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the leasehold land and land use rights. Leasehold land and buildings were previously classified as "property, plant and equipment", and were carried at cost less accumulated depreciation and impairment. Following the adoption of HKAS 17, a lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease prepayment is stated at cost and amortised over the period of the lease. Whereas the leasehold building is stated at cost less accumulated depreciation and impairment. The land element of the leasehold properties was previously included in "land use rights and buildings in the PRC" and is now disclosed as "Leasehold land and land use rights". The adoption of HKAS 17 resulted in:

	2005	2004
Decrease in property, plant and equipment	**(37,911)**	(39,496)
Increase in Leasehold land and land use rights	**37,911**	39,496

(All amounts in RMB thousand unless otherwise stated)

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of new / revised HKFRS *(continued)*

(d) The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 requires retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Investments in securities, other than subsidiaries and associates, were previously classified as long-term investments and trading securities. Effective from 1st January 2005, the Group redesignated all long-term investments as available-for-sale financial assets. They are carried at fair vale, where an active market exists, with any unrealised gains and losses recognised in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Trading securities are carried at fair value.

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. Accounts and other receivables were previously carried at cost less impairment, if any.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings were previously carried at cost.

The above changes in accounting policy did not have any material financial effect on the Group's financial statements.

The adoption of HKAS 39 has resulted in a change in accounting policy relating to the derecognition of financial assets. A financial asset shall be derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or an entity transfers the financial asset and the transfer qualifies for derecognition in accordance with HKAS 39. The adoption of HKAS 39 resulted in:

	2005	2004
Increase in trade bills receivable	**203,335**	–
Increase in short-term bank borrowings	**203,335**	–

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of new / revised HKFRS *(continued)*

The Group has carried out an assessment of the impact of following new HKFRS which have been issued but not yet effective and have not been early adopted by the Group. The adoption of these new HKFRS is not expected to result in substantial changes to the Group's accounting policies.

HKAS 1 Amendment	Presentation of Financial Statements — Capital Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 1 and HKFRS 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining Whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) - Int 6	Liabilities Arising From Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC) - Int 7	Financial Reporting in Hyperinfilationary Economics

2. Summary of significant accounting policies (*continued*)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2. Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. Summary of significant accounting policies (*continued*)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renmibi ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly buildings, machineries, office equipments and others. Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

—	Buildings	10 - 40 years
—	Machinery for electronics production	15 years
—	Machinery for glass production	6 -18 years
—	Other machinery	18 years
—	Office equipment and others	5 years

No depreciation is provided on construction in progress. All direct and indirect costs relating to the construction of property, plant and equipment including interest and financial costs and foreign exchange differences on the related borrowed funds during the construction period are capitalised as the cost of the property, plant and equipment.

2. Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment *(continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Intangible assets

(a) Licenses for technical knowledge

Expenditure on licenses is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of significant accounting policies (*continued*)

2.8 Financial assets

The Group previously classified its investments in securities, other than subsidiaries and asssociates, as long-term investments and trading securities.

(a) Long-term investments

Long term investments are equity investments held for an identified long term purpose and are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(b) Other investments

Other investments are investments held for trading purpose and are stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

Effective from 1st January 2005, the Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2. Summary of significant accounting policies *(continued)*

2.8 Financial assets *(continued)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (note 2.10).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or` loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the income statement within "other net income", in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.10 to the financial statements.

2. Summary of significant accounting policies (*continued*)

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement

2.11 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. Summary of significant accounting policies (*continued)*

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits

The full time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. These government-sponsored pension plans are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Voluntary payments made to certain former employees and which were not made pursuant to a formal or informal plan are expensed as paid.

2. Summary of significant accounting policies *(continued)*

2.15 Employee benefits *(continued)*

Full time employees are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

Compensations for employee termination and early retirement are recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered.

2.18 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2. Summary of significant accounting policies (*continued)*

2.19 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.20 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.21 Research and development expenses

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

2.22 Grants

Grants related to income are deferred and are recognised in the income statement on a systematic basis to match with the related costs which they are intended to compensate, otherwise grants with no future related costs are recognised on receipt basis.

Grants relating to the purchase of property, plant and equipments are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2. Summary of significant accounting policies (*continued*)

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and price risk), credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by senior management under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC. Revenue and majority of its operating costs and cost of sales are denominated in RMB. No significant foreign exchange risk arising from future commercial transactions, recognized assets and liabilities is expected.

(ii) Price risk

The Group is exposed to commodity price risk. Since 1996, all color television set manufacturers in the PRC have lowered or even substantially lowered the selling prices of their products due to over-production. As a result, the profit margins of the color television set industry have decreased. As the CPT industry is the upstream industry of the color television set industry, the selling prices of CPTs also decreased. The Directors believe that the declining trend in the prices of color television sets has stabilized and any further decline in their prices will not have impacts on our profitability.

3. Financial risk management (*continued*)

3.1 Financial risk factors (*continued*)

(b) Credit risk

Sales to two (2004: three) of the Group's major customers exceed 10% of the total turnover. The aggregate sales to the five largest customers represents 55% (2004: 62%) of total turnover.

The Group has policies in place to ensure that sale of products are made to customers with an appropriate credit history. The Group also performs periodic credit evaluations of its customers and believes that adequate provision for doubtful trade receivables has been made in the financial statements.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, senior management aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Interest rate risk

The Group has significant interest-bearing assets mainly in the form of bank balances, but the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The interest rate risk arises from bank borrowings. The short-term bank borrowings are interest bearing at rates between 3.51% - 5.94% and are repayable according to the contract terms.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred taxation is provided in full, using the liability method, on temporary difference arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred tax assets are recognised for deductible temporary difference to the extent it is probable that future taxable profits will be available against which the deductible temporary differnce can be utilised, based on all available evidence. Recognition primarily involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred tax assets has been recognised. A variety of other factors are also evaluated in all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidene that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the deductible temporary differences, the asset balance will be reduced and charged to income statement.

4. Critical accounting estimates and judgments *(continued)*

(a) Critical accounting estimates and assumptions *(continued)*

(ii) Estimated impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates taking into account the existing business expansion plan going forward, the current sales orders on hand and other strategic new business development.

As at 31st December 2005, the Group provided for an impairment loss of RMB567,659,000 (note 25) in respect of property, plant and equipment. The items being written down to recoverable amount due to there being business situation concerns over future profitability. The recoverable amounts of different production plants, cash generating units to which the property, plant and equipment belong, have been determined based on value-in-use calculations using cash flow projections determined by independent professional valuers based on financial budgets approved by senior management of the Group covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated declining rates ranging from 5% per annum to 35% per annum for different cash generating units. The discount rates applied to cash flow projections range from 14.39% per annum to 15.27% per annum and 18.26% to 19.37% for years before 2010 and thereafter respectively.

If the revised estimated gross margin had been 10% lower than management's estimates at 31st December 2005, the Group would need to further reduce the carrying value of property, plant and equipment by RMB242,091,000.

If the revised estimated pre-tax discount rate applied to the discounted cash flows adopted in the value-in-use calculations had been 10% higher than management's estimates at 31st December 2005, the Group would need to further reduce the carrying value of property, plant and equipment by RMB55,466,000.

If the actual gross margin had been 10% higher or the pre-tax discounted rate had been 10% lower than management's estimates at 31st December 2005, the Group would be able to reverse the impairment losses by RMB126,072,000 and RMB50,758,000 that arose on these assets recognised in the current year.

4. Critical accounting estimates and judgments *(continued)*

(a) Critical accounting estimates and assumptions *(continued)*

(iii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation expenses for the Group's property, plant and equipment. Management will revise the depreciation expenses where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Critical judgments in applying the Group's accounting policies

The following critical accounting judgements maybe applicable, among many other possible areas not presented in these consolidated financial statements.

(i) Net realisable values of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the income statement is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgment is required. In making this judgment, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(All amounts in RMB thousand unless otherwise stated)

5. Property, plant and equipment

Group

	Buildings	Machinery for electronics production	Machinery for glass production	Other machinery	Office equipment and others	Construction in progress	Total
Year ended 31st December 2005							
Opening net book amount							
- as previously reported	297,622	1,473,721	385,533	352,024	39,477	907,309	3,455,686
Effect of adoption of HKAS 17	(39,496)	—	—	—	—	—	(39,496)
Opening net book amount							
- as restated	258,126	1,473,721	385,533	352,024	39,477	907,309	3,416,190
Additions	206	68,821	—	34,399	3,558	338,118	445,102
Transfers	79	288,782	84,409	114,371	9,906	(497,547)	—
Transfer to inventories	—	—	—	—	—	(12,311)	(12,311)
Disposals	—	(8,926)	—	(1,293)	(1,153)	(1,525)	(12,897)
Depreciation charge	(20,365)	(160,630)	(92,860)	(60,317)	(12,817)	—	(346,989)
Impairment charge	—	(159,077)	—	(12,610)	—	(395,972)	(567,659)
Closing net book amount	238,046	1,502,691	377,082	426,574	38,971	338,072	2,921,436
At 31st December 2005							
Cost	437,618	2,884,203	878,938	861,163	114,101	734,044	5,910,067
Accumulated depreciation and impairment losses	(199,572)	(1,381,512)	(501,856)	(434,589)	(75,130)	(395,972)	(2,988,631)
Net book amount	238,046	1,502,691	377,082	426,574	38,971	338,072	2,921,436

(All amounts in RMB thousand unless otherwise stated)

5. Property, plant and equipment *(continued)*

Group *(continued)*

	Buildings	Machinery for electronics production	Machinery for glass production	Other machinery	Office equipment and others	Construction in progress	Total
At 1st January 2004							
Cost	433,712	2,397,551	646,603	691,244	102,630	198,407	4,470,147
Accumulated depreciation	(157,218)	(1,056,925)	(413,542)	(395,847)	(70,579)	—	(2,094,111)
Net book amount	276,494	1,340,626	233,061	295,397	32,051	198,407	2,376,036
Year ended 31st December 2004							
Opening net book amount							
- as previously reported	308,094	1,340,626	233,061	295,397	32,051	198,407	2,407,636
Effect of adoption of HKAS 17	(31,600)	—	—	—	—	—	(31,600)
Opening net book amount							
- as restated	276,494	1,340,626	233,061	295,397	32,051	198,407	2,376,036
Additions	462	27,317	—	67,854	14,651	1,184,972	1,295,256
Acquisition of a subsidiary	—	126	—	4,577	—	—	4,703
Transfers	7,246	204,665	226,450	33,492	4,217	(476,070)	—
Disposals	(3,197)	(4,992)	(6,363)	(2,781)	(1,314)	—	(18,647)
Depreciation charge	(22,879)	(94,021)	(67,615)	(46,515)	(10,128)	—	(241,158)
Closing net book amount	258,126	1,473,721	385,533	352,024	39,477	907,309	3,416,190
At 31st December 2004							
Cost	437,333	2,602,240	794,529	723,995	111,689	907,309	5,577,095
Accumulated depreciation	(179,207)	(1,128,519)	(408,996)	(371,971)	(72,212)	—	(2,160,905)
Net book amount	258,126	1,473,721	385,533	352,024	39,477	907,309	3,416,190

(All amounts in RMB thousand unless otherwise stated)

5. Property, plant and equipment (*continued*)

Company

	Machinery for electronics production	Machinery for glass production	Other Machinery	Office equipment and others	Construction in progress	Total
Year ended 31st December 2005						
Opening net book amount	553,078	241,308	290,963	21,644	379,845	1,486,838
Additions	62,222	—	14,443	2,842	156,392	235,899
Transfers	267,621	84,409	27,759	9,250	(389,039)	—
Disposals	(827)	—	(10)	(702)	—	(1,539)
Depreciation charge	(83,455)	(32,371)	(27,683)	(7,199)	—	(150,708)
Impairment charge	(57,237)	—	(10,371)	—	(75,648)	(143,256)
Closing net book amount	741,402	293,346	295,101	25,835	71,550	1,427,234
At 31st December 2005						
Cost	1,215,784	571,476	459,612	76,817	147,198	2,470,887
Accumulated depreciation and impairment losses	(474,382)	(278,130)	(164,511)	(50,982)	(75,648)	(1,043,653)
Net book amount	741,402	293,346	295,101	25,835	71,550	1,427,234
Upon incorporation						
Cost	754,824	260,617	370,652	71,550	698,558	2,156,201
Accumulated depreciation	(395,556)	(243,002)	(124,536)	(52,724)	—	(815,818)
Net book amount	359,268	17,615	246,116	18,826	698,558	1,340,383
Year ended 31st December 2004						
Opening net book amount	359,268	17,615	246,116	18,826	698,558	1,340,383
Additions	11,173	—	29,285	2,433	130,538	173,429
Transfers	193,698	226,450	25,032	4,071	(449,251)	—
Disposals	(2,250)	—	(777)	(1,184)	—	(4,211)
Depreciation charge	(8,811)	(2,757)	(8,693)	(2,502)	—	(22,763)
Closing net book amount	553,078	241,308	290,963	21,644	379,845	1,486,838
At 31st December 2004						
Cost	951,834	487,067	423,295	72,736	379,845	2,314,777
Accumulated depreciation	(398,756)	(245,759)	(132,332)	(51,092)	—	(827,939)
Net book amount	553,078	241,308	290,963	21,644	379,845	1,486,838

(All amounts in RMB thousand unless otherwise stated)

5. Property, plant and equipment (*continued*)

The Group's depreciation charge of RMB317,648,000 (2004: RMB223,097,000) has been expensed in cost of sales, RMB872,000 (2004: RMB401,000) in selling and marketing costs and RMB28,469,000 (2004: RMB17,660,000) in administrative expenses.

The Group's impairment charge of RMB567,659,000 (2004: Nil) has been expensed in cost of sales.

The events and circumstances that led to the recognition of the impairment loss and the discount rates used in the current estimate of value in use are disclosed in note 4(a)(ii).

As at 31st December 2005, short-term bank borrowings of the Group amounting to RMB280,000,000 (2004: RMB300,000,000) are secured on the Group's buildings and machineries for the carrying amount of RMB284,673,000 (2004: RMB321,973,000) (note 22).

6. Leasehold land and land use rights - Group

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2005	2004
Opening net book amount - as previously reported	**–**	–
Effect of adoption of HKAS 17	**39,496**	31,600
Opening net book amount - as restated	**39,496**	31,600
Additions	**–**	9,557
Amortisation charge	**(1,585)**	(1,661)
Closing net book amount	**37,911**	39,496
Outside Hong Kong, held on leases of:		
- between 10 to 50 years	**37,590**	39,171
- less than 10 years	**321**	325
	37,911	39,496

(All amounts in RMB thousand unless otherwise stated)

7. Intangible assets

Group

	Licenses for technical knowledge	Computer Software	Total
Year ended 31st December 2005			
Opening net book amount	67,074	—	67,074
Additions	1,399	1,543	2,942
Amortisation charge	(55,643)	(383)	(56,026)
Closing net book amount	12,830	1,160	13,990
At 31st December 2005			
Cost	332,037	1,543	333,580
Accumulated amortisation and impairment	(319,207)	(383)	(319,590)
Net book amount	12,830	1,160	13,990
At 1st January 2004			
Cost	322,019	—	322,019
Accumulated amortisation and impairment	(209,414)	—	(209,414)
Net book amount	112,605	—	112,605
Year ended 31st December 2004			
Opening net book amount	112,605	—	112,605
Additions	8,619	—	8,619
Amortisation charge	(54,150)	—	(54,150)
Closing net book amount	67,074	—	67,074
At 31st December 2004			
Cost	330,638	—	330,638
Accumulated amortisation	(263,564)	—	(263,564)
Net book amount	67,074	—	67,074

Amortisation of RMB 55,643,000 (2004: RMB 54,150,000) has been expensed in cost of sales and RMB 383,000 (2004: Nil) in the administrative expenses in the income statement.

(All amounts in RMB thousand unless otherwise stated)

7. Intangible assets *(continued)*

Company

	Licenses for technical knowledge	Computer Software	Total
Year ended 31st December 2005			
Opening net book amount	21,534	—	21,534
Additions	1,397	1,543	2,940
Amortisation charge	(13,619)	(383)	(14,002)
Closing net book amount	9,312	1,160	10,472
At 31st December 2005			
Cost	94,575	1,543	96,118
Accumulated amortisation	(85,263)	(383)	(85,646)
Net book amount	9,312	1,160	10,472
Year ended 31st December 2004			
Opening net book amount upon incorporation	22,412	—	22,412
Additions	2,576	—	2,576
Amortisation charge	(3,454)	—	(3,454)
Closing net book amount	21,534	—	21,534
At 31st December 2004			
Cost	93,178	—	93,178
Accumulated amortisation	(71,644)	—	(71,644)
Net book amount	21,534	—	21,534

(All amounts in RMB thousand unless otherwise stated)

8. Investments in and loans to subsidiaries

(a) Investments in subsidiaries

	Company 2005	2004
Investments, at cost:		
Shares listed in the PRC	**815,815**	1,082,418
Unlisted shares	**536,501**	729,857
	1,352,316	1,812,275

The Group's interests in a listed subsidiary in the PRC represents domestic legal person shares which are not freely transferable on the stock market under the prevailing PRC listing rules. Market value is not presented for those shares as such information is not meaningful.

As at 31st December 2005, the Company has direct and indirect interests in the following subsidiaries, all of which were established in the PRC. The particulars of the subsidiaries are set out below:

Name	Registered Capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries	Attributable to the Group
IRICO Display Device Co., Ltd.	RMB 421,148,800	Production and development of the electronic products and raw materials for colour display devices	56.14%	—	56.14%
IRICO Kunshan Industry Co., Ltd	RMB 60,000,000	Production of the rubber parts of CPTs	80%	7.5%	87.5%
Shaanxi IRICO Phosphor Material Co., Ltd. ("IRICO Phosphor")	RMB 90,000,000	Production of phosphor for various types of CPTs	45%	—	45%
Xian IRICO Zixun Co., Ltd.	RMB 130,000,000	Production and sales of the parts and components for display devices and the electronic communication products	45%	30.88%	75.88%
Xianyang Caiqin Electronic . Device Co., Ltd	RMB 25,000,000	Production and sales of pin, anode button, multi-form and frit for CPTs	87.16%	—	87.16%

(All amounts in RMB thousand unless otherwise stated)

8. Investments in and loans to subsidiaries *(continued)*

(a) Investments in subsidiaries *(continued)*

Name	Registered Capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries	Attributable to the Group
Xianyang IRICO Electronic Parts Co., Ltd.	RMB 55,000,000	Sales of shadow mask, frames and electronic products for CPTs	60%	—	60%
Xianyang IRICO Electronics Shadow Mask Co., Ltd.	US$5,000,000	Development and production of the flat shadow mask and the coordinating products for CPTs	75%	—	75%
Zhuhai Caizhu Industrial Co., Ltd.	RMB50,000,000	Manufacture of electronic devices and components	90%	—	90%
IRICO Display Technology Co., Ltd.	US$2,500,000	Production and sale of CPTs, black and white picture tubes and ancillary electronic components	75%	—	75%
Xianyang IRICO Digital Display Co., Ltd.	RMB650,000,000	Production and sales of CPTs	51%	27.51%	78.51%
Caizhu Jinshun Electronic Industry Co., Ltd.	RMB10,000,000	Production and sales of frit for CPTs	—	75%	75%
Kunshan Caihong Yingguang Electronics Co., Ltd.	US$4,500,000	Production of procession alloy and other products for color and black and white picture tubes	—	60%	60%
Nanjing Reide Phosphor Co., Ltd.	US$443,300	Production and processing of recycled phosphor and related products for various types of CPTs	—	45%	45%
Xian Caihui Display Technology Co., Ltd.	RMB10,000,000	R&D, design, manufacture, sales of CPTs, deflection yoke and related component and part as well as the after sale services for the sold product	—	100%	100%

(b) Loan to a subsidiary

The loan to a subsidiary is unsecured, carries interest at 5.58% (2004: 5.31%) per annum and repayable on 22nd December 2006 (2004: 9th November 2005).

(All amounts in RMB thousand unless otherwise stated)

9. Interest in associates - Group

	2005	2004
Opening carrying amount	**18,218**	18,022
Additions	**1,600**	—
Share of associates' profits less losses		
- (loss) / profit before taxation	**(2,479)**	234
- taxation	**—**	(38)
Closing carrying amount	**17,339**	18,218

The Group's interest in its associates, all of which are unlisted, are as follows:

Name	**Country of incorporation**	**Assets**	**Liabilities**	**Revenues**	**Profit / (loss)**	**Interest held**
2005						
Xian New Century International Club Co., Ltd.	PRC	22,324	9,176	9,855	(2,008)	41.67%
Shenzhen Rui Sheng Phosphor Material Co.,Ltd.	PRC	2,164	861	129	(297)	40%
Xian IRICO Plastic Industry Co., Ltd.	PRC	3,470	582	3,118	(174)	30%
		27,958	10,619	13,102	(2,479)	
2004						
Xian New Century International Club Co., Ltd.	PRC	20,583	5,427	8,872	19	41.67%
Shenzhen Rui Sheng Phosphor Material Co., Ltd.	PRC	—	—	—	—	—
Xian IRICO Plastic Industry Co., Ltd.	PRC	3,699	637	3,500	177	30%
		24,282	6,064	12,372	196	

(All amounts in RMB thousand unless otherwise stated)

9. Interest in associates - Group (*continued*)

The particulars of the associates at 31st December 2005 are set out below:

Name	Registered Capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries	Attributable to the Group
Xian IRICO Plastic Industry Co., Ltd.	10,000,000	Production of deflection yoke spacers and balances for colour display devices	—	30%	30%
Xian New Century International Club Co., Ltd.	48,000,000	Provision of catering services and the operation of amenity centers	—	41.67%	41.67%
Shenzhen Ruisheng Phosphor Material Co.,Ltd.	4,000,000	Production regenerated red, green and blue phosphor materials	—	40%	40%

10. Available-for-sale financial assets/long-term investments - Group

	2005	2004
Unlisted investments, at cost	**33,500**	33,500
Provision for impairment loss	**(9,440)**	(9,440)
	24,060	24,060

Unlisted investments substantially comprise the investment in equity interests in Western Trust & Investment Co., Ltd., a state controlled enterprise. The directors consider that the underlying value of these investments were not less than their carrying values as at 31st December 2005.

Pursuant to the transitional provisions of HKAS 39, the Group has redesignated all of those investments previously classified as long-term investments as at 31st December 2004 as shown above as available-for-sale financial assets with effective from 1st January 2005.

(All amounts in RMB thousand unless otherwise stated)

11. Inventories

	Group		Company	
	2005	2004	**2005**	2004
Raw materials	**208,397**	243,496	**140,026**	158,811
Work in progress	**311,177**	281,152	**168,109**	139,149
Finished goods	**149,863**	415,585	**61,647**	191,816
Consumables	**21,620**	8,001	**5,662**	5,471
	691,057	948,234	**375,444**	495,247
Write-down to net realisable value	**(19,274)**	(17,678)	**(3,761)**	(7,400)
	671,783	930,556	**371,683**	487,847

At 31st December 2005, inventories that has been carried at net realisable value amounted to approximately RMB110,999,000 (2004: RMB120,940,000)

12. Trade receivables

	Group		Company	
	2005	2004	**2005**	2004
Trade receivables				
— third parties	**383,474**	179,242	**62,672**	—
— related parties (Note 35)	**243,694**	489,710	**48,798**	169,408
— subsidiaries of the Company	**—**	—	**325,200**	73,910
	627,168	668,952	**436,670**	243,318
Less: provision for impairment of receivables	**(13,229)**	(3,006)	**(11,963)**	(1,530)
Trade receivables - net	**613,939**	665,946	**424,707**	241,788
Trade bills receivable				
— third parties	**224,234**	167,279	**53,948**	29,593
— related parties (Note 35)	**636,264**	460,736	**180,906**	101,269
	860,498	628,015	**234,854**	130,862
	1,474,437	1,293,961	**659,561**	372,650

At 31st December 2004 and 2005, the ageing of trade bills receivable are all within 180 days.

(All amounts in RMB thousand unless otherwise stated)

12. Trade receivables (*continued*)

The Group offers credit terms to its customers ranging from cash on delivey to 90 days. At 31st December 2005 and 2004, the ageing analyses of trade receivables are as follows:

	Group		Company	
	2005	2004	**2005**	2004
0 - 90 days	**553,982**	617,284	**431,112**	239,233
91 - 180 days	**62,812**	44,403	**1,351**	271
181 - 365 days	**3,493**	4,259	**393**	2,284
Over 365 days	**6,881**	3,006	**3,814**	1,530
	627,168	668,952	**436,670**	243,318

The Group has recognised a loss of RMB10,223,000 (2004: a gain of reversal RMB5,200,000) for the impairment of its trade receivables during the year ended 31st December 2005. The loss has been included in other operating expenses in the income statement.

13. Trading securities - Group

	2005	2004
Funds listed in the PRC	—	2,955
Bonds listed in the PRC	—	1,685
	—	4,640

14. Cash and bank balances

	Group		Company	
	2005	2004	**2005**	2004
Pledged balances	**—**	21,000	**—**	21,000
Unpledged balances				
- time deposit	**58,500**	29,000	**—**	—
- other bank balances	**529,338**	1,067,516	**186,555**	460,465
	587,838	1,117,516	**186,555**	481,465

All the cash and bank balances are denominated in RMB and deposited with banks in the PRC except for the equivalent amounts of RMB212,597,000 (2004: RMB215,149,000) at 31st December 2005 which is denominated in foreign currencies. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31st December 2004, cash and bank balances included deposit of RMB21,000,000 which was pledged to secure short-term bank loans.

The effective interest rate on time deposits was 2.07% to 2.25% (2004: 2.07% to 2.25%), these deposits have a maturity from 180 days to 365 days.

15. Share capital

	Number of domestic shares of RMB 1 each	**Number of H shares of RMB 1 each**	**Total number of shares of RMB 1 each**	**RMB'000**
Issued and fully paid				
Upon the reorganisation	1,500,000	—	1,500,000	1,500,000
Domestic shares converted to H shares	(44,120)	44,120	—	—
Allotted and issued upon listing of H shares	—	441,174	441,174	441,174
At 31st December 2004 and 2005	1,455,880	485,294	1,941,174	1,941,174

The Company was incorporated on 10th September 2004 with an initial share capital of RMB1,500,000,000, all of which were credited as fully paid, in consideration for the transfer of the relevant assets, liabilities and equity interests in various entities to the Company pursuant to the Reorganisation referred to in note 1 to the financial statements. These domestic shares rank pari passu in all aspects with each other.

(All amounts in RMB thousand unless otherwise stated)

15. Share capital *(continued)*

During the year ended 31st December 2004, the Company completed its initial public offering and placing of 485,294,000 H shares with a par value of RMB1.00 each at a price of HK$1.58 per H share in cash for an aggregate consideration of HK$767 million, which comprised 441,174,000 new H Shares issued by the Company and 44,120,000 shares issued to the ultimate holding company pursuant to an approval from the State Assets Commission to convert such relevant domestic shares owned by the ultimate holding company into H shares as part of the public offering. As a result, the issued share capital of the Company increased to 1,941,174,000 shares, comprising 1,455,880,000 domestic shares and 485,294,000 H shares, representing 75% and 25% of the issued capital respectively.

The H shares rank pari passu in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of any other country other than the PRC. The transfer of the domestic shares is subject to such restrictions as the PRC laws may impose from time to time.

16. Other reserves

Group

	Capital Reserve *(Note (i))*	Statutory surplus reserve *(Note (ii))*	Statutory public welfare fund *(Note (iii))*	Total
At 1st January 2004	679,758	—	—	679,758
Premium on issue of shares	299,865	—	—	299,865
Share issuance costs	(63,490)	—	—	(63,490)
Contribution of ultimate holding company	4,739	—	—	4,739
Transfer from retained earnings	—	15,687	7,843	23,530
At 31st December 2004 and 31st December 2005	920,872	15,687	7,843	944,402

(All amounts in RMB thousand unless otherwise stated)

16. Other reserves (*continued*)

Company

	Capital Reserve *(Note (i))*	Statutory surplus reserve *(Note (ii))*	Statutory public welfare fund *(Note (iii))*	Total
Upon incorporation	726,248	—	—	726,248
Premium on issue of shares	299,865	—	—	299,865
Share issuance costs	(63,490)	—	—	(63,490)
Transfer from retained earnings	—	15,687	7,843	23,530
At 31st December 2004 and 31st December 2005	962,623	15,687	7,843	986,153

Notes:

(i) Capital reserve

As described in note 1 to the financial statements of the Group for the year ended 31st December 2004 have been prepared as if the Group had been in existence throughout the year and as if the relevant assets, liabilities, equity interests in various entities were transferred to the Company by the ultimate holding company on 1st January 2003. Upon incorporation of the Company on 10th September 2004, the historical net value of the assets, liabilities and interests transferred to the Company were converted into the Company's capital as described in note 15 with all the then existing reserves eliminated and the resulting difference dealt with in the capital reserve. Accordingly, a capital reserve, being the difference between the amount of share capital issued and historical net value of the assets, liabilities and interests transferred to the Company, was presented in the reserves of both the Group and the Company. Separate class of reserves, including retained profits, of the Group prior to the incorporation of the Company were not separately disclosed as all these reserves have been capitalised and incorporated in the capital reserve of the Group and the Company pursuant to the Reorganisation.

(ii) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP") to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital. The Company decided to make a 10% transfer as statutory surplus reserve for the year ended 31st December 2004.

(All amounts in RMB thousand unless otherwise stated)

16. Other reserves *(continued)*

Notes: (*continued*)

(iii) Statutory public welfare fund

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation determined in accordance with PRC GAAP to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital. The Company decided to make a 5% transfer as statutory public welfare fund for the year ended 31st December 2004.

17. Deferred income

Deferred income represents granted received from the United Nations by the Group for its ozone depleting substance cleansing replacement project for acquiring machineries to treat the ozone depleting substance produced during the production process. This deferred income is amortised to the income statement on a straight-line basis over the expected lives of the corresponding assets of 5 years.

18. Deferred income tax

Deferred taxation is calculated in full on temporary differences under the liability method using principal taxation rates of 33% (2004:33%) except for certain subsidiaries mentioned in Note 28 which are subject to tax concession to pay income tax at 15% (2004:15%).

The gross movement on the deferred income tax account is as follows:

	Group		**Company**	
	2005	2004	**2005**	2004
Opening carrying amount	**(9,947)**	(8,172)	**2,307**	-
Debited/(credited) to the income statement (Note 28)	**25,645**	(1,775)	**1,307**	2,307
Closing carrying amount	**15,698**	(9,947)	**3,614**	2,307

(All amounts in RMB thousand unless otherwise stated)

18. Deferred income tax *(continued)*

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:

Group	Depreciation and amortisation	Provision of assets	Accrual of staff costs	Elimination of unrealised profit from intra-group transactions	Total
At 1st January 2004	(8,116)	(1,966)	(6,575)	(7,072)	(23,729)
(Credited)/debited to the income statement	(2,214)	(1,260)	516	(1,354)	(4,312)
At 31st December 2004	(10,330)	(3,226)	(6,059)	(8,426)	(28,041)
Debited to the income statement	10,330	3,226	6,059	8,426	28,041
At 31st December 2005	-	-	-	-	-

Company	Provision of assets	Accrual of staff costs	Total
Upon incorporation	(1,799)	(1,771)	(3,570)
Debited to the income statement	1,569	1,771	3,340
At 31st December 2004	(230)	-	(230)
Debited to the income statement	230	-	230
At 31st December 2005	-	-	-

(All amounts in RMB thousand unless otherwise stated)

18. Deferred income tax (*continued)*

Deferred tax liabilities:

	Group Accelerated tax depreciation	Company Accelerated tax depreciation
At 1st January 2004 / Upon incorporation of the Company	15,557	2,087
Debited to the income statement	2,537	450
At 31st December 2004	18,094	2,537
(Credited)/debited to the income statement	(2,396)	1,077
At 31st December 2005	15,698	3,614

The deferred tax liabilities are to be recovered after more than 12 months.

Deferred income tax assets are recognised for tax loss carry-forward and other deductible temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB355,277,000 (2004: Nil) where, in the opinion of the Directors, it is not probable that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses and other deductible temporary differences.

The potential deferred tax assets which have not been recognised in the financial statements are as follows:

	2005	2004
Arising from tax losses	**193,926**	-
Arising from impairment	**143,366**	-
Arising from provision of assets	**7,483**	-
Arising from accrual of staff costs	**3,938**	-
Arising from elimination of unrealised profit	**6,564**	-
	355,277	-

The Group's unrecognised deferred tax assets in respect of tax losses will expire in 2010.

(All amounts in RMB thousand unless otherwise stated)

19. Long-term payables

Long-term payables mainly represent early retirement allowance payable to the employees of the Group.

The maturity profile of the long-term payables was as follows:

	Group		Company	
	2005	2004	**2005**	2004
Opening carrying amount	**—**	—	**—**	—
Debited to income statement (Note 26)	**18,505**	—	**13,355**	—
Closing carrying amount	**18,505**	—	**13,355**	—
Less: current portion included in current liabilities	**(4,626)**	—	**(3,339)**	—
Non-current portion	**13,879**	—	**10,016**	—

Compensation for early retirement is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

20. Trade payables

	Group		Company	
	2005	2004 Restated	**2005**	2004 Restated
Trade payables				
— third parties	**287,094**	250,610	**98,626**	91,813
— related parties (Note 35)	**397,053**	338,558	**328,313**	240,392
— subsidiaries	**—**	—	**44,331**	16,369
	684,147	589,168	**471,270**	348,574
Trade bills payable				
— third parties	**—**	509	**—**	—
— related parties (Note 35)	**10,000**	95,662	**10,000**	48,662
	10,000	96,171	**10,000**	48,662
	694,147	685,339	**481,270**	397,236

(All amounts in RMB thousand unless otherwise stated)

20. Trade payables (*continued*)

At 31st December 2005 and 2004, the ageing analysis of trade payables are as follows:

	Group		Company	
	2005	2004	**2005**	2004
0 - 90 days	**545,847**	586,951	**442,269**	348,503
91 - 180 days	**126,233**	1,616	**23,644**	—
181 - 365 days	**7,671**	186	**1,487**	—
Over 365 days	**4,396**	415	**3,870**	71
	684,147	589,168	**471,270**	348,574

21. Other payables and accruals

Included in other payables and accruals are an amount due to the ultimate holding company (Note 35) and provisions for warranty. Movements of the provisions of warranty are as follows:

	Group		Company	
	2005	2004	**2005**	2004
Opening carrying amount / upon incorporation	**4,818**	4,895	**4,818**	4,856
Charged in the income statement (Note 25)	**12,520**	12,973	**12,520**	6,410
Utilised during year	**(13,399)**	(13,050)	**(13,399)**	(6,448)
Closing carrying amount	**3,939**	4,818	**3,939**	4,818

Under the terms of the Group's sales agreements, the Group will rectify product defects arising within one year from the date of sales. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the year prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and the Group only makes provision where a claim is probable.

(All amounts in RMB thousand unless otherwise stated)

22. Short-term bank borrowings

	Group		Company	
	2005	2004	**2005**	2004
Secured	**280,000**	500,000	**—**	200,000
Unsecured	**980,177**	920,000	**735,605**	790,000
	1,260,177	1,420,000	**735,605**	990,000

As at 31st December 2005, short-term bank borrowings of approximately RMB280,000,000 (2004: RMB300,000,000) are secured by certain buildings and machinery of the Group (Note 5).

As at 31st December 2005, short-term bank borrowings of approximately RMB440,000,000 (2004: Nil) are guaranteed by the ultimate holding company.

As at 31st December 2005, short-term bank borrowings include trade bills payable of approximately RMB203,335,000 (2004: Nil) which are discounted to banks with recourse.

As at 31st December 2004, short-term bank borrowings of approximately RMB 200,000,000 were secured by certain amouts of bank deposits and trade bills receivable of the Group.

The effective interest rates as at balance sheet date are as follows:

	2005	2004
Short-term bank borrowings per annum	**3.51% - 5.94%**	3.51% - 5.02%

As at 31st December 2005, the unutilised banking facilities of the Group amounted to approximately RMB203,158,000 (2004: RMB570,000,000).

(All amounts in RMB thousand unless otherwise stated)

23. Turnover

The Group is principally engaged in the manufacturing of CPT for colored television sets, related CPT components including glass bulbs, electron guns, shadow masks and their frames, deflection yokes, frit, anode buttons, phosphor, etc and provision of related packaging, engineering and trading services.

	2005	2004
Sales of CPTs and CPT components	**3,927,500**	4,949,683

24. Other revenue and other net income

	2005	2004 Restated
Other revenue:		
Sales of raw materials, scraps and packaging materials	**37,603**	47,154
Other net income:		
Gains on disposal of the financial assets at fair value through profit or loss	**1,422**	—
Gains on disposal of trading securities	**—**	1,037
Interest income	**5,986**	5,524
Dividend income	**—**	396
Gains on disposal of property, plant and equipments	**4,687**	—
Amortisation of deferred income on grant received	**3,475**	4,688
Proceeds from collection of written off trade receivables	**1,450**	—
Rental income	**1,179**	940
Other service income	**442**	2,472
Reversal of provision of doubtful debts	**—**	5,200
Others	**2,654**	4,488
	21,295	24,745

(All amounts in RMB thousand unless otherwise stated)

25. Operating (loss)/profit

Operating (loss)/profit as stated after charging the following:

	2005	2004
Cost of inventories sold	**2,988,327**	3,822,721
Depreciation charge (note 5)	**346,989**	241,158
Amoritisation of leasehold land and land use rights (note 6)	**1,585**	1,661
Amortisation of intangible assets (note 7)	**56,026**	54,150
Employee benefit expense (note 26)	**529,102**	526,268
Loss on disposal of property, plant and equipment	**—**	7,153
Losses on trading securities	**—**	11,814
Impairment loss of property, plant and equipment	**567,659**	—
Transportation	**105,081**	71,401
Advertising costs	**1,037**	132
Research and development expenses	**36,940**	46,980
Provision for doubtful debts	**10,583**	302
Write-down of inventories to net realisable value	**1,596**	10,278
Operating lease rentals in respect of land use rights	**4,218**	4,218
Operating lease rentals in respect of property, plant and equipment	**30,956**	32,327
Net exchange losses	**7,007**	517
Impairment loss of long-term investments	**—**	5,940
Provision for warranty (note 21)	**12,520**	12,973
Auditors' remuneration	**5,639**	2,083

(All amounts in RMB thousand unless otherwise stated)

26. Employee benefit expense

	2005	2004
Wages and salaries	**355,240**	409,638
Retirement benefit contributions		
— pension obligations (Note)	**55,166**	46,769
— early retirement benefits (Note 19)	**18,505**	—
Welfare and social security costs	**100,191**	69,861
	529,102	526,268

Note:

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 7%, respectively, of the employee's basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. The Group had no further pension obligation beyond the above contributions.

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31st December 2005 is set out below:

Name of Director	Fee	Salary and allowance	Employer's contribution to pension scheme	Total
Executive Directors				
Mr. Xing Daoqin	-	224	9	233
Mr. Ma Jinquan (Note (i))	-	170	6	176
Mr. Tao Kui	-	239	9	248
Mr. Guo Mengquan	-	213	9	222
Mr. Zhang Shaowen	-	210	9	219
Mr. Yun Dajun	-	1,554	-	1,554
Non-executive Directors				
Mr. Zhang Xingxi (Note (ii))	-	270	14	284
Mr. Feng Fei	68	-	-	68
Mr. Xu Xinzhong	68	-	-	68
Mr. Feng Bin	67	-	-	67
Mr. Wang Jialu	67	-	-	67
Mr. Zha Jianqiu	67	-	-	67
	337	2,880	56	3,273

(All amounts in RMB thousand unless otherwise stated)

26. Employee benefit expense *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

The remuneration of every director for the year ended 31st December 2004 is set out below:

Name of Director	Fee	Salary and allowance	Employer's contribution to pension scheme	Total
Executive Directors				
Mr. Ma Jinquan (Note (i))	-	304	7	311
Mr. Tao Kui	-	304	7	311
Mr. Xing Daoqin	-	292	6	298
Mr. Guo Mengquan	-	292	6	298
Mr. Zhang Shaowen	-	293	6	299
Mr. Yun Dajun	-	263	-	263
Non-executive Directors				
Mr. Zhang Xingxi (Note (ii))	-	248	6	254
Mr. Feng Fei	32	-	-	32
Mr. Xu Xinzhong	32	-	-	32
Mr. Feng Bin	33	-	-	33
Mr. Wang Jialu	33	-	-	33
Mr. Zha Jianqiu	33	-	-	33
	163	1,996	38	2,197

Notes:

(i) Mr Ma Jinquan retired on 5th August 2005.

(ii) Mr Zhang Xingxi's emolument is afforded by the Group's ultimate holding company IRICO Group Corporation.

No directors of the Group waived or agreed to waive any emolument during the years.

(All amounts in RMB thousand unless otherwise stated)

26. Employee benefit expense *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (2004: five) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals (2004: Nil) during the year are as follows:

	2005	2004
Basic salaries, housing allowances, other allowances and benefits in kind	**1,620**	—
Retirement benefit contributions	**26**	—
	1,646	—

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
Nil to RMB1,000,000	**4**	—

During the year, no emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2004: Nil).

27. Finance costs

	2005	2004
Interest expense on short-term bank borrowings	**65,997**	55,360
Interest expense to the ultimate holding company (note 35)	**1,048**	—
Finance charge on discounted trade bills to banks	**3,051**	7,606
	70,096	62,966

(All amounts in RMB thousand unless otherwise stated)

28. Income tax expense

The provision for PRC current enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 33% (2004: 33%) of the assessable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year except for the Company and certain subsidiaries described below. All corresponding EIT relating to the taxable profit during the year have been recognised in the consolidated income statement.

	2005	2004
Current income tax	**22,732**	136,243
Deferred income tax (note 18)	**25,645**	(1,775)
	48,377	134,468

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to (losses)/profits of the consolidated companies as follows:

	2005	2004
(Loss) / profit before income tax	**(911,956)**	650,250
Tax calculated at statutory rate of 33%	**(300,945)**	214,583
Income under tax exemption and reduction (note)	**(10,476)**	(80,155)
Income not subject to tax	**—**	(2,876)
Expenses not deductible for tax purposes	**4,521**	2,916
Unrecognised deferred tax assets	**355,277**	—
Total income tax expense	**48,377**	134,468

28. Income tax expense (*continued)*

Note:

Companies are entitled to the preferential tax treatment for Opening Up of Western China ("OUWC Policy") if they are engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) as their principal business and the revenue from the principal operations account for over 70% of their total revenue. The applicable reduced preferential EIT rate under the OUWC Policy is 15%. From 10th September 2004, date of incorporation of the Company, the operations of the Company have met the requirements under the OUWC Policy, and accordingly, EIT has been provided at 15% since then.

The operations of IRICO Display Devices Co., Ltd. have met the requirements under the OUWC Policy for the year ended 31st December 2005 and 2004, and accordingly, EIT has also been provided at 15%.

Xian IRICO Zixun Co., Ltd. was granted the status of high technology company. It is exempted from EIT for 2001 and 2002 and is required to pay EIT at a rate of 15% from 2003 to 2005.

Zhuhai Caizhu Industrial Co., Ltd. and Caizhu Jinshun Electronic Industry Co., Ltd. are registered in a special economic zone and are entitled to pay EIT at 15% in 2005 and 2004.

Kunshan Caihong Yingguang Electronics Co., Ltd. is registered in a technological economic development zone and is required to pay EIT at a rate of 15% in 2005 and 2004.

Nanjing Reide Phosphor Co., Ltd., Xianyang IRICO Electronics Shadow Mask Co., Ltd. and IRICO Display Technology Co., Ltd. are Sino-foreign equity joint ventures engaging in the production business and are exempted from taxation for the first two profitable years and a 50% relief from the national PRC income tax rate (also exempted from paying the 3% local income tax) for the next three profitable years thereafter. As a result, Nanjing Reide Phosphor Co., Ltd., which was established in 2002, enjoy 50% relief from the income tax rate. Xianyang IRICO Electronics Shadow Mask Co., Ltd., established in 2003 has not made profit so far and has no assessable income. IRICO Display Technology Co., Ltd., which was established in 2004, is still in the exemption period.

29. (Loss) / profit attributable to equity holders of the Company

The (loss) / profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB582,985,000 (2004: RMB189,916,000).

(All amounts in RMB thousand unless otherwise stated)

30. (Loss) / earnings per share

The calculation of basic (loss) / earnings per share is based on the Group's (loss) / profit attributable to equity holders of RMB754,547,000 (2004: RMB385,327,000) and based on the weighted average of 1,941,174,000 (2004: 1,516,922,000) shares in issue.

There were no dilutive potential shares during the years ended 31st December 2004 and 2005 and accordingly no diluted earnings per share is presented.

31. Dividend / profit distribution

	2005	2004
Special dividend	**58,261**	204,923

At a meeting held on 15th April 2005, the directors announced that, after a review of the Company's operations since the listing of the Company's H shares and as a reward to the support of the Company's shareholders, the directors proposed a special dividend of RMB 0.03 per ordinary share which was approved at the shareholders' meeting held on 20th June 2005. The Company resolved to distribute a special dividend to equity holders before 30th June 2005.

As described in note 1 to the financial statements, the Reorganisation of the Group was consummated on 31st December 2003 but the formal incorporation of the Company was on 10th September 2004 ("Incorporation Date"). According to the "Provisional Regulations Concerning the Management of State Capital and Certain Accounting Treatment for Enterprises Restructuring into Companies" from the Ministry of Finance of the PRC, all the net profit accrued from the operations of the Transferred Businesses transferred to the Company, as reported under the relevant PRC GAAP, prior to the Incorporation Date was attributable to the ultimate parent company. As a result, the Company was required to make a special distribution which represents the net profit determined under PRC GAAP accrued from the Transferred Businesses from 1st January 2004 to 9th September 2004 (one day before the Incorporation Date, "Immediate Pre-incorporation Date") amounting to RMB204,923,000, to the ultimate parent company. The dividend/profit distribution was recorded in other payables and accurals at the time of declaration and approval.

(All amounts in RMB thousand unless otherwise stated)

32. Notes to consolidated cash flow statement

(a) Cash generated from operations

	2005	2004
(Loss)/profit for the year	**(960,333)**	515,782
Adjustments for:		
— Income tax expense	**48,377**	134,468
— Increase / (decrease) in provision of doubtful debts	**10,583**	(4,898)
— Write down of inventories to net realizable value	**1,596**	10,278
— Impairment loss on available-for-sale financial assets	**—**	5,940
— Depreciation	**346,989**	241,158
— Impairment loss on property, plant and equipments	**567,659**	—
— Amortisation	**57,611**	55,811
— (Profit)/loss on sale of property, plant and equipment (see below)	**(4,687)**	7,153
— Profit on disposal of trading securities	**(1,422)**	—
— Realised loss on other investment	**—**	10,777
— Interest income	**(5,986)**	(5,524)
— Dividend income	**—**	(396)
— Finance costs	**70,096**	62,966
— Share of profit less losses of associates	**2,479**	(196)
— Amortisation of deferred income on grants received	**(3,475)**	(3,475)
Changes in working capital		
— Decrease / (increase) in inventories	**257,177**	(226,741)
— (Increase) / decrease in trade and other receivables	**(65,214)**	20,171
— Decrease in trade and other payables	**(16,097)**	(8,310)
Cash generated from operations	**305,353**	814,964

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
Net book amount	**12,897**	18,647
Profit/(loss) on sale of property, plant and equipment	**4,687**	(7,153)
Proceeds from sale of property, plant and equipment	**17,584**	11,494

(All amounts in RMB thousand unless otherwise stated)

32. Notes to consolidated cash flow statement (*continued*)

(b) Analysis of changes in financing during the year

	Share Capital and capital reserves	Other payables- non trade balance due to ultimate holding company	Minority interests	Short term bank borrowings	Other payables - dividend payable	Pledged bank balances
At 1st January 2004	2,179,758	10,695	1,007,160	1,060,000	146,084	—
Special dividend declared	—	204,923	—	—	—	—
Minority share of profit	—	—	130,455	—	—	—
Minority interests arising from acquisition of a subsidiary	—	—	7,655	—	—	—
Contribution from ultimate holding company	4,739	—	—	—	—	—
Unpaid share issuance costs	(26,417)	—	—	—	—	—
Cash inflow / (outflow) from financing	703,966	133,560	(16,404)	360,000	(146,084)	(21,000)
At 31st December 2004	2,862,046	349,178	1,128,866	1,420,000	—	(21,000)
Special dividend declared	—	43,676	—	—	14,585	—
Interest expense payable to ultimate holding company	—	1,048	—	—	—	—
Minority share of loss	—	—	(205,786)	—	—	—
Dividend payable to minority shareholders	—	—	(7,689)	—	—	—
Cash (outflow) / inflow from financing	—	(54,311)	(84,407)	(159,823)	(14,585)	21,000
At 31st December 2005	2,862,046	339,591	830,984	1,260,177	—	—

33. Material litigation

Baystar Capital II, LP et al. v. Core-Pacific Yamaichi International (HK) Ltd. et al., Case No 05 1091 ABC (CWx) (filed in the United States District Court for the Central District of California) (the "Baystar Litigation"). On or about 11st February 2005, BayStar Capital Management, LLC and BaystarCapital II, LP (hereinafter collectively referred to as "Baystar"), a holder of the Company's H shares, commenced a litigation against Core-Pacific Yamaichi International (H.K.) Limited, et.al (hereinafter referred to as "CPYI"), one of the underwriters that offered the Company's H shares to investors in the United States pursuant to Rule 144A of the Securities Act of the USA. Baystar alleges that it entered into a strategic business development agreement with CPYI, pursuant to which CPYI acted as an investment consultant to Baystar in the greater China area. Baystar claims that CPYI breached the agreement and its fiduciary duties to Baystar. In addition, Baystar alleges that CPYI made material misrepresentations and omissions to Baystar, in violation of United States federal and state securities laws and the common law. Baystar has alleged no claims against the Company.

On or about 20th May 2005, CPYI commenced a third-party lawsuit against the Company and the lead underwriter of the Company, as part of the Baystar Litigation. CPYI seeks contractual and common law indemnification and / or contribution from the Company in the event that CPYI is found liable to Baystar. A copy of the third-party complaint was served on Law Debenture Society on or about 11th June 2005. The Company has retained Jones Day to represent the Company in the litigation. On 18th August 2005, Jones Day filed a motion to dismiss the third-party complaint in its entirety. On 13th October 2005, the Court granted in part and denied in part the motion to dismiss. Thereafter, on 7th November 2005, the Company filed an answer to CPYI's claims, denying all liability. Pre-trial discovery has commenced and is currently underway. Under the discovery schedule presently in effect, all discovery is to be completed by 1st June 2006. The final pre-trial motion is scheduled for 16th October 2006 and trial is set for 31st October 2006.

On 21st April 2006, the Company filed a motion for summary judgment, seeking dismissal of the Third-Party Complaint in its entirety, because no party has identified a single material misrepresentation or omission made by the Company in the Offering Circular. The Company anticipates that the motion will be briefed and submitted to the Court on or about 15th May 2006. The Company denies that CPYI's claims have any merit and will defend itself vigorously.

In the opinion of the directors of the Company, the outcome of the above litigation will not give rise to any significant impact on the financial statements of the Group for the year ended 31st December 2005.

(All amounts in RMB thousand unless otherwise stated)

34. Commitments - Group

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2005	2004
Authorised but not contracted for		
— Construction and renovation of production lines for CPTs	**49,711**	200,308
— Construction and renovation of production lines for CPT components	**165,064**	181,569
	214,775	381,877
Contracted but not provided for		
— Construction and renovation of production lines for CPTs	**12,289**	136,983
— Construction and renovation of production lines for CPT components	**7,746**	161,056
	20,035	298,039
	234,810	679,916

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	Land use rights		**Property, plant and equipment**	
	2005	2004	**2005**	2004
Not later than 1 year	**289**	1,789	**35,045**	35,045
Later than 1 year and not later than 5 years	**—**	895	**—**	35,045
	289	2,684	**35,045**	70,090

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions

The Group is controlled by IRICO Group Corporation (incorporated in the PRC), which owns 75% of the Company's shares. The remaining 25% of the shares are widely held.

Related parties include IRICO Group Corporation and its subsidiaries (other than the Group), associates and jointly controlled entitles (hereinafter collectively refered to the "IRICO Group"), corporations in which the Company is able to control, jointly control or exercise significant influence, key management personnel of the Company and IRICO Group Corporation and their close family members. IRICO Group Corporation does not produce financial statements available for public use.

IRICO Group Corporation is controlled by PRC government. In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are also regarded as related parities of the Group and defined as "Other state controlled enterprise". For purpose of related transaction disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, in the opinions of directors, the majority of the Group's activities have been conducted with other state controlled enterprises in the Group's ordinary course of business. In the meantime, the meaningful information relating to related party transactions has been adequately disclosed.

The following transactions were carried out with related parties:

(a) Sales of goods and provision of services

	2005	2004
Sales of goods (Note (i)):		
The IRICO Group		
— Shenzhen Hongyang Industry & Trade Company	**29,022**	32,920
— the utilities plant of the ultimate holding company	**14,791**	32,248
— Rui Bo Electronics (HK) Limited	**9,050**	—
— Caihong Labour Services Company	**1,283**	154
— Shaanxi IRICO General Service Corporation	**429**	592
— Shaanxi IRICO Construction Engineering Co., Ltd.	**11**	—
— Xian IRICO Electric Co., Ltd.	**3**	109
— China National Electronics Imp. & Exp. Caihong Company (note (ii))	**—**	347,015
— Shenzhen IRICO-ROYAL Info-Electronics Ltd.	**—**	585
— Shenzhen IRICO Electronics Co. Ltd. (note (iii))	**—**	58
	54,589	413,681
Other state controlled enterprises	**1,882,563**	3,099,464
Provision of services		
— Management fee from the ultimate holding company (Note (iv))	**—**	8,172

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(a) Sales of goods and provision of services *(continued)*

Notes:

(i) Sales to related parties were conducted at prices not less than cost and with terms mutually agreed by both contract parties.

(ii) Sales to and purchase from China National Electronics Imp. & Exp. Caihong Company were discontinued before the listing of the Company.

(iii) As at 19th May 2005, Shenzhen IRICO Electronics Co. Ltd. reformed to be a private owned company, thus it is not related party of the Group after the reform. There is no remaining balance due to / from this company, and the purchase amount in note b) only represents the first half year of 2005.

(iv) In 2004, the management fee received/receivable from the utilities plant of the ultimate holding company, was levied based on 3% of the sales amount of the utilties plant of the ultimate holding company for financing and management service provided by the Group as agreed by the parties involved. This transaction was discontinued upon the incorporation of the Company.

(b) Purchases of goods and provision of services

	2005	2004
Purchases of goods (Note (i)):		
The IRICO Group		
— Caihong Labour Services Company	**81,862**	103,447
— Shaanxi IRICO General Service Corporation	**47,341**	50,082
— Xianyang Cailian Packaging Materials Co., Ltd.	**37,311**	26,416
— Xian Caihong Plastic Co., Ltd.	**12,159**	11,731
— Shenzhen IRICO Electronics Co., Ltd.	**4,958**	12,874
— Xianyang Caihong Adhesive Belt Co., Ltd.	**4,530**	5,242
— Shenzhen Hongyang Industry & Trade Company	**2,407**	1,621
— China National Electronics Imp. & Exp. Caihong Company (Note (ii))	**—**	246,526
	190,568	457,939
Other state controlled enterprises	**923,179**	1,532,381
Purchases of property, plant and equipments:		
The IRICO Group		
— Xian Guangxin Electronics Co., Ltd. (Note (iii))	**639**	—
Other state controlled enterprises	**68,816**	491,201

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(b) Purchases of goods and provision of services *(continued)*

	2005	2004
Provision of services:		
The IRICO Group		
— Utility charges to the utilities plant of the ultimate holding company (Note (iv))	**444,582**	420,761
— Rental expense to the ultimate holding company (Note (v))	**34,424**	35,045
— School expense to IRICO School	**9,278**	10,106
— Social and ancillary service charges from the ultimate holding company (Note (vi))	**3,986**	3,958
— Trademark licence fee to the ultimate holding company (Note (vii))	**3,902**	4,950
— Shaanxi IRICO Construction Engineering Co., Ltd.	**1,216**	—
— Accommodation fee to Shaanxi IRICO General Service Corporation	**986**	—
— Shaanxi IRICO Engineering Audit Company	**882**	—
— Rental expense to Xian Guangxin Electronics Co., Ltd. (Note (iii))	**750**	1,500
— Shaanxi IRICO Engineering Design Institution	**93**	—
	500,099	476,320
Other state controlled enterprises	**124**	120

Notes:

(i) Purchases from related parties were conducted at prices not less than cost and with terms mutually agreed by both contract parties.

(ii) Sales to and purchase from China National Electronics lmp. & Exp. Caihong Company were discontinued before the listing of the Company.

(iii) Rental expense of machineries and equipments at RMB125,000 per month was determined based on the terms stipulated in a lease agreement entered into between Xian IRICO Zixun Co., Ltd. and Xian Guangxin Electronics Co., Ltd., a fellow subsidiary of the Group. The lease agreement was signed on 28th June 2001 for a period of three years and was renewed for another two and a half years up to 31st December 2006.

As at 30th June, 2005, Xian IRICO Zixun Co., Ltd. has entered into a purchase agreement with Xian Guangxin Electronics Co., Ltd. to purchase these machineries and equipments in a total amount of RMB 639,488. Thus the original lease agreement has ceased.

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(b) Purchases of goods and provision of services *(continued)*

(iv) Various kinetic energy charges were paid/payable by the companies of the Group to the utility plant of the ultimate holding company based on the agreed rates for the years ended 31st December 2005 and 2004 respectively.

(v) From 1st January 2004, the Group is required to pay RMB11 per square metre per annum for the use of land use rights and RMB9 and RMB30 per square metre per month for the use of buildings in Xianyang and Beijing respectively, pursuant to the Premises Leasing Agreement. Accordingly, rental charges for the year ended 31st December 2005 amounted to RMB34,424,000 (2004: RMB35,045,000).

(vi) Social and ancillary service charges for the provision of staff welfare services are paid / payable to the ultimate holding company on a cost reimbursement basis.

(vii) License fee for using the trademark owned by the ultimate holding company was paid by the Group, at 0.1% of sales based on the terms stipulated in agreements. In accordance with the agreement signed by one of the subsidiaries, IRICO Display Devices Co. Ltd., the term is initially for five years from 1998 but renewable automatically unless terminated by either party with a three-month prior notice, and it was revised to end on 31st December 2006. In accordance with the agreement signed by the rest entities of the Group, the license fee is to be paid from 1st January 2004 and the agreement is for a term of 3 years up to 31st December 2006 unless terminated by either party with a three-month prior notice.

(c) Loans from and amount due to the ultimate holding company

	2005	2004
Opening carrying amount	**79,000**	—
Loans borrowed	**29,000**	79,000
Loans payment	**(79,000)**	
Interest expense (Note 27)	**1,048**	—
Closing carrying amount	**30,048**	79,000

Pursuant to an agreement entered into on 16th December 2004, the Company transferred its titles of certain loans to subsidiaries to the ultimate holding company on 19th December 2004 and offset its amount due to the ultimate holding company. This balance is recorded in the non-trade payables due to the ultimate holding company.

Loans from the ultimate holding company were unsecured, due within one year and with interest rate 5.58%(2004: 5.31%) per annum.

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(c) Loans from and amount due to the ultimate holding company *(continued)*

	Group		Company	
	2005	2004	**2005**	2004
Other payables and accruals				
The ultimate holding company	**339,591**	349,178	**319,946**	263,525

As at 31st December 2005, except for amounts of RMB29,000,000 (2004: RMB79,000,000) of the Group due to the ultimate holding company which carry interest at 5.58% (2004: 5.31%) per annum and are repayable on 15th December 2006, the non-trade balances are unsecured, interest free and have no fixed repayment terms.

(d) Key management compensation

	2005	2004
Salaries and other short-term employee benefits	**3,666**	2,254
Retirement benefit contributions	**75**	45
	3,741	2,299

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions (*continued*)

(e) Year-end balances arising from sales/purchases of goods/provision of services

	Group		Company	
	2005	2004	**2005**	2004
Trade receivables from related parties (Note):				
The IRICO Group				
— Shenzhen Hongyang Industry & Trade Company	**4,206**	7,949	**—**	—
— Shenzhen IRICO-ROYAL Info-Electronics Ltd.	**3,421**	3,421	**3,421**	3,421
— The Utilities Plant of the ultimate holding company	**49**	—	**49**	—
— Shenzhen IRICO Electronics Co., Ltd.	**—**	30	**—**	—
	7,676	11,400	**3,470**	3,421
Other state controlled enterprises	**872,282**	939,046	**226,234**	267,256
	879,958	950,446	**229,704**	270,677
Reprensenting:				
Trade receivables (Note 12)	**243,694**	489,710	**48,798**	169,408
Trade bills receivable (Note 12)	**636,264**	460,736	**180,906**	101,269
	879,958	950,446	**229,704**	270,677

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(e) Year-end balances arising from sales/purchases of goods/provision of services *(continued)*

	Group		Company	
	2005	2004	**2005**	2004
Trade payables to related parties (Note):				
The IRICO Group				
— The utilities plant of the ultimate holding Company	**103,992**	—	**76,994**	—
— The ultimate holding company	**29,981**	—	**28,954**	—
— Caihong Labour Service Company	**10,108**	10,218	**1,321**	2,214
— Shaanxi IRICO General Service Corporation Co., Ltd.	**6,048**	—	**2,930**	—
— Xianyang Cailian Package Material Company	**5,141**	1,577	**3,231**	—
— Shenzhen Hongyang Industry & Trade Co., Ltd.	**640**	—	**640**	—
— Sakuria Denshikogyo Co., Ltd.	**336**	1,694	**—**	—
— Xianyang Caihong Electronic Materials Co.	**98**	293	**—**	—
— Shenzhen IRICO Electronics Co., Ltd.	**—**	7,126	**—**	2,100
— Xianyang Caihong Adehesive Belt Co., Ltd.	**—**	1,390	**—**	453
— Xi'an IRICO Plastic Industry Co., Ltd.	**—**	827	**—**	—
	156,344	23,125	**114,070**	4,767
Other state controlled enterprises	**250,709**	411,095	**224,243**	284,287
	407,053	434,220	**338,313**	289,054
Reprensenting:				
Trade payables (Note 20)	**397,053**	338,558	**328,313**	240,392
Trade bills payable (Note 20)	**10,000**	95,662	**10,000**	48,662
	407,053	434,220	**338,313**	289,054

Notes:

The trade balances in respect of sales and purchases are under the Group's normal trading terms.

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions (*continued)*

(f) Bank balances in and loan from state controlled banks

	Group		Company	
	2005	2004	**2005**	2004
Bank balance in state controlled banks	**534,177**	940,144	**186,399**	420,856
Short-term borrowings from state controlled banks	**1,260,177**	1,420,000	**735,605**	990,000

	Group	
	2005	2004
Interest income from state controlled banks	**65,997**	55,360
Interest and finance costs to state controlled banks	**5,986**	5,524

36. Ultimate holding company

The directors regard IRICO Group Corporation, a company established in the PRC, as being the ultimate holding company.

Five Year Financial Summary

For the year ended 31st December 2005

	For the year ended 31st December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**3,927,500**	4,949,683	4,269,781	3,999,378	3,293,021
Profit / (loss) before taxation	**(911,956)**	650,250	623,116	510,923	152,868
Taxation	**(48,377)**	(134,468)	(173,969)	(129,891)	(37,292)
Profit before minority interests	**(960,333)**	515,782	449,180	381,032	115,576
Minority interests	**(205,786)**	130,455	(133,355)	(103,929)	(41,265)
Net (loss) / profit attributable to equity holders of the year	**(754,547)**	385,327	315,825	277,103	74,311
Assets, liabilities and minority interests	**9,361,210**	11,200,106	8,771,594	10,035,480	10,461,777
Total assets	**5,795,426**	7,121,278	5,475,676	6,425,806	6,544,210
Total liabilities	**2,734,800**	2,949,962	2,288,758	2,696,838	3,072,507
Minority interests	**830,984**	1,128,866	1,007,160	912,836	845,060

EXHIBIT 3

IRICO

彩虹集團電子股份有限公司

IRICO GROUP ELECTRONICS COMPANY LIMITED*

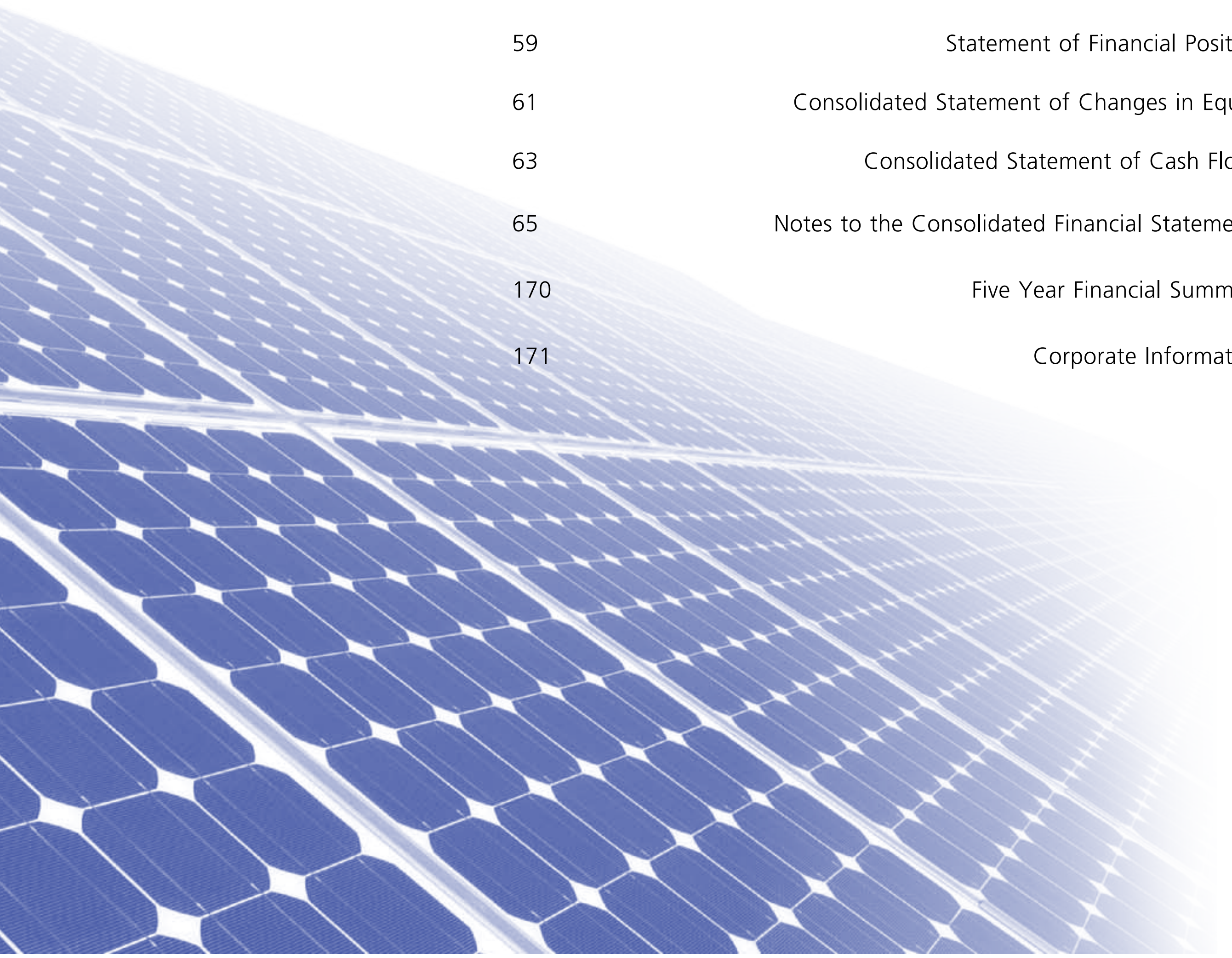
(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0438)

Annual Report 2011

* For identification purposes only

Contents



1. Results

	2011 (RMB'000)	2010 (RMB'000)	Increase/ (decrease) (RMB'000)	Percentage (%)
Turnover	**3,270,348**	2,717,770	552,578	20.33
Cost of sales	**(3,164,459)**	(2,311,974)	852,485	36.87
Gross/profit	**105,889**	405,796	(299,907)	(73.91)
Gross profit margin *(%)*	**3.24%**	14.93%	(11.69)	N/A
Operating (loss)/profit	**(532,671)**	132,745	(665,416)	(501.27)
Operating profit margin	**(16.29%)**	4.88%	(21.17)	N/A
(Loss)/profit for the year attributable to owners of the Company	**(253,038)**	29,075	(282,113)	(970.29)
Profit margin *(%)*	**(7.74%)**	1.07%	(8.81)	N/A
(Loss)/earnings per share for the year attributable to owners of the Company *(expressed in RMB per share)*	**(0.1134)**	0.0136	(0.1270)	(933.82)
Dividend per share *(RMB)*	**—**	—	—	—

2. Financial position

	2011 **(RMB'000)**	2010 *(RMB'000)*
Property, plant and equipment	**8,202,921**	5,830,486
Net current assets	**642,254**	2,043,997
Cash and bank balances	**2,080,334**	2,698,430
Total liabilities	**8,267,210**	5,106,823
Short-term bank and other borrowings	**1,568,601**	1,173,272
Total equity	**5,052,178**	5,737,699

3. Operating indices

	2011	2010
Returns on equity *(on annualized basis)*	**(11.34%)**	1.36%
Inventory turnover *(days)*	**46**	96
Trade receivable turnover *(days)*	**60**	64
Trade payable turnover *(days)*	**94**	112
Current ratio	**1.18**	1.88
Debt to equity ratio	**3.11**	1.71

Chairman's Statement

Dear Shareholders,

I am pleased to present the results of IRICO Group Electronics Company Limited ("IRICO" or the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011 (the "reporting period").

During 2011, we have received the guidance and care from related authorities such as the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC") as well as great support and help from all walks of life. In proactive response to complicated economic situations both domestically and internationally, the Group, while overcoming the adverse impact of a declining traditional display devices industry, kept furthering the optimization and adjustment to the industrial structure and upgrading of product technologies, and achieved effective transformation of growth modes. As a result, the Group recorded rapid growth of its new businesses, the revenue of which, as a percentage of the total revenue of the Group, exceeded 84%, indicating that the Group's strategic transformation has been basically realized.

Business Review

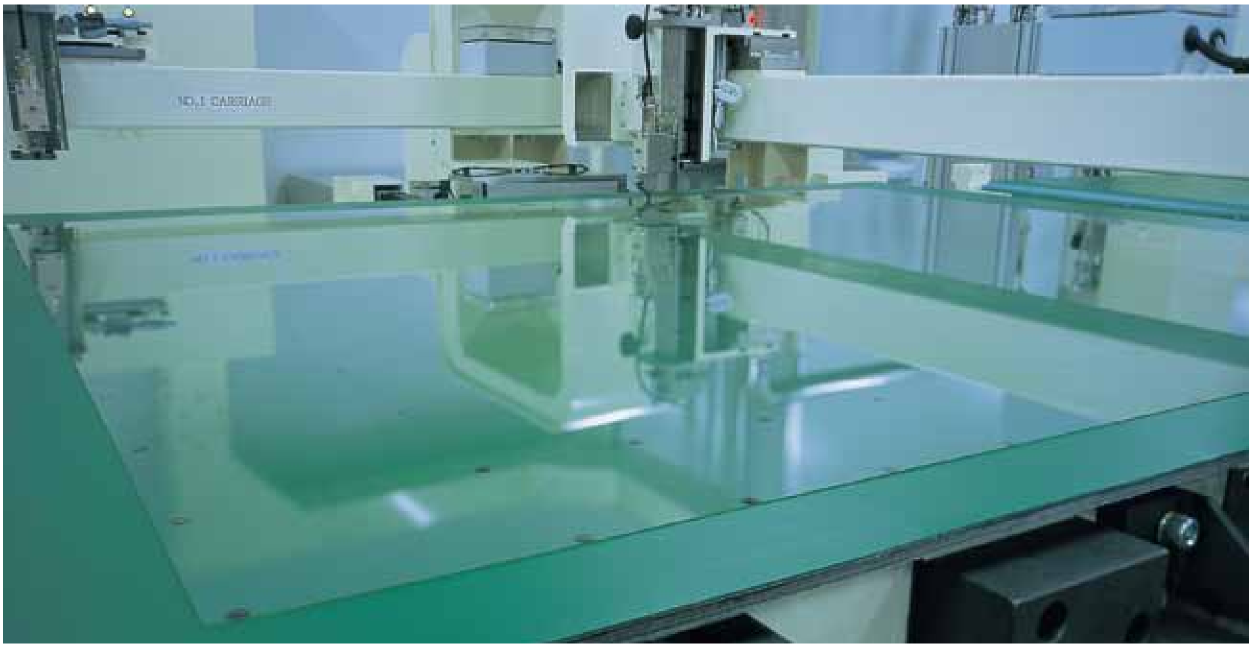
During the reporting period, the Group witnessed steady operation and rapid growth in its new businesses such as solar photovoltaic glass, luminous materials, and liquid crystal display ("LCD") glass substrates.

As for solar photovoltaic glass business, a total of four in-service production lines under Phase I Project and Phase II Project in Xianyang has operated smoothly; the construction work of Phase III Project and Phase IV Project in Xianyang and the Hefei Project, which were currently under construction, have proceeded well and equipment installation and commissioning were conducted in an orderly manner, and they will be successively put into trial production in 2012.

As for luminous materials business, the sales volume of the Group's tri-phosphor fluorescent lamp powder in 2011 remained on par with that of last year, maintaining a firm leading positing in China in terms of market share. The sales volume of cold cathode fluorescent lamp phosphor ("CCFL phosphor") for LCD backlight business increased by approximately 25% over last year. Remarkable results were achieved in the marketing of such new products as plasma display panel phosphor ("PDP phosphor"), electronic silver paste, and lithium battery powder.

As for LCD glass substrate business, during the reporting period, the Group continued to improve the manufacturing process, with the overall yield of fine products enhancing further. Client accreditation work was in smooth progress with four downstream users completed accreditation of the Group's products. Products sales in batch have been made to two of the users and pre-purchase negotiations were under way with the other two users with batch sales on the horizon.

The Group's production line of PM-OLED, the third generation display device, has been put into production.



Future Prospects

Looking into 2012, macro-economic uncertainties still exist the and Group shall face both opportunities and challenges at the same time. The Group will keep consolidating and enlarging the results of its transformation, and vigorously press ahead for further growth of various new businesses. With both the production and sales volume of solar photovoltaic glass to undergo rapid increase, the Group will gradually explore the sector of value-added glasses such as coated glass; further enrich product varieties of the luminous materials business, and keep improving the manufacturing process for LCD glass substrate with a rapid increase in sales volume. Meanwhile, the Group will fully exit the Color Picture Tube (the "CPT") industry. The Group will adhere to the operational guideline of "achieving steady and fast growth by adjustment and optimization" and strengthen its independent innovation in order to enhance our business operation results.

In addition, the Company will further strengthen communications with our shareholders and vast number of investors, and actively take advices and suggestions from investors as to the future development of the Group. With a complete accomplishment of our strategic transformation, we believe that the Group will embrace brighter prospect and will be able to bring sound returns for our vast number of shareholders.

Acknowledgement

I would like to extend my gratitude on behalf of the board of directors (the "Board") of the Company and its members (the "Director(s)") to our shareholders (the "Shareholder(s)"), business partners and friends of all walks of life for their care and support to the Company, and to express my heartfelt gratitude to all of our management team members and all of our employees for their dedicated hard work.

IRICO Group Electronics Company Limited
Tao Kui
Vice Chairman

Xianyang, the People's Republic of China
28 March 2012

1. Industry Analysis

(1) Solar Photovoltaic Glass

In 2011, despite the adverse factors such as a weakening global economy, the European debt crisis and constantly decreasing government subsidies, the worldwide demand in the photovoltaic market still amounted to 27.41GW, representing a year-on-year increase of about 40%, still remaining a relatively high growth rate. Spurred by the launch of on-grid tariff policies for photovoltaic power generation and other favorable factors, the newly-increased installed capacity of the domestic photovoltaic market increased around 2.75GW, representing a nearly 5-fold increase comparing with the figure of the same period last year. As driven by the rapid growth of the photovoltaic market, the market demand of the global photovoltaic glass in 2011 amounted to approximately 207 million square meters, representing a year-on-year increase of about 40%. As the leading photovoltaic glass production base worldwide, China's photovoltaic glass market in 2011 also maintained rapid growth, but lower than the growth of production capacity of photovoltaic glass for the same period, thus resulting in a decline in price and increased competition in the second half of 2011.

In 2012, though the photovoltaic glass market is expected to maintain its growth momentum, the oversupply situation of the photovoltaic glass sector will persist globally and there will be more internal consolidations within the industry. It is predicted that between 2013 and 2016, the photovoltaic market will still keep an average annual growth rate of about 20%, with a gradual shift from a policy-driven growth model to a market-driven one, thus further strengthening the spontaneous vitality of the industry.

(2) Luminous Materials and Others

As for the luminous materials sector, during the first half of 2011, the substantial rise of costs of energy saving lamp resulting from relentless spikes in the price of rare earth materially restrained the capacity utilization rate of energy saving lamp manufacturers, and ultimately affected the demand for the tri-phosphor fluorescent powder for energy saving lamps. In the second half of 2011, as the price of rare earth fell back, the energy saving lamp phosphor market upturned to some degree. During the reporting period, a pattern of "reducing output and increasing profit" came into being in the domestic energy saving lamp phosphor sector in response to the surge of rare earth price. In addition, The sector of plasma display panels (the "PDP") phosphor and other luminous material products recorded satisfactory performance during the reporting period. As a result of contracting fossil energy resources, enhanced environmental protection and relevant initiatives taken by various governments, the demand for lithium battery powder remained strong.

Despite that many countries including China issued rigorous policies to ban the use of incandescent lamps, the market demand for energy saving lamp phosphor will slightly drop in 2012, due to the technological progress of the manufacturers of energy saving lamps and the pressure of replacement by LED. Furthermore, the market demand for PDF phosphor will remain stable, and the market demand for lithium battery powder will maintain a growth momentum, whereas the CCFL phosphor market will undergo continued contraction.

1. Industry Analysis *(Continued)*

(3) TFT-LCD Glass Substrate

In 2011, the global market demand for thin film transistor liquid crystal display ("TFT-LCD") glass substrates amounted to approximately 324 million square meters, representing a year-on-year increase of 5% which however also marks a historical new low. The relatively low capacity utilization rate of LCD panel manufacturers resulted in an periodic oversupply of glass substrates. In China, as some production lines of newer generation LCD panels were put into operation, the domestic market demand for glass substrates continued its rapid growth momentum. As at the end of 2011, the domestic demand for glass substrates by the TFT-LCD panel production lines in operation reached 4.07 million square meters per month, representing a year-on-year increase of 165% over the same period of last year. The rapidly rising domestic demand for LCD glass substrates can still be barely satisfied by the production lines in operation and under construction in China. Therefore, there are still huge business opportunities for the Chinese glass substrates manufacturers in the years to come.

Looking into 2012, the rising demand for panels from the emerging economies and the holding of the London Olympic Games will prop up the panels market to certain degree, and further boost the demand for glass substrates. It is expected that the global market demand for glass substrates in 2012 will reach 375 million square meters, representing a year-on-year increase of 16% over last year. "Scale- and Brand-dominated" competition pattern is shifting to a "Cost- and Customer-dominated" new pattern in the future, which brings favorable development opportunities for new entrants of the industry.

2. Business Review

(1) Operation Highlights

During the reporting period, the Group,through speeding up the development of new industries such as solar photovoltaic glass, luminous materials and LCD glass substrates, actively addressed the adverse effects posed by the complex economic landscape at home and abroad and the continuing recession of traditional display device sector. Projects under construction proceeded steadily; product craftsmanship was improved in a continuous manner; and sales revenue from new businesses recorded rapid growth. All these indicated that the Group has basically completed its strategic transformation.

In 2011, the Group recorded sales of RMB3,270,348,000, representing an increase of RMB552,578,000 as compared to last year. Operating losses were RMB532,671,000, representing a decrease in operating profit of RMB665,416,000 as compared to operating profits for last year. Gross profit margin was 3.24%, representing a decrease of 11.69 percentage points as compared to the previous year (2010: 14.39%). Losses attributable to owners of the Company amounted to RMB253,038,000 compared to profits of RMB29,075,000 for the same period last year.

2. Business Review *(Continued)*

(2) Review of Principal Businesses

- ***Solar Photovoltaic Glass Business***

During the reporting period, the Group achieved relatively good progress in the industrialization and scale development of its solar photovoltaic glass business. With regard to the established production lines of solar photovoltaic glass, the operation proceeded normally and products were sold well. In 2011, the sales amount of solar photovoltaic glass representing a year-on-year increase of 156% over last year. Through enhanced control, accurate management, the costs of solar photovoltaic glass business and relevant expenses were further reduced, thereby continuously increasing its market competitiveness. With regard to the solar photovoltaic glass Xianyang Phase III Project, Xianyang Phase IV Project and Hefei Project which are under construction, the construction work proceeded well and equipment installation and commissioning were conducted in an orderly manner. In 2012, the Group will successively put these projects into trial production depending on the market conditions of solar photovoltaic industry. As for the value-added glass such as coated glass, the Group has commenced industrialisation development with a view to raising product added value and enhancing profitability.

- ***Luminous Materials Business***

During the reporting period, on one hand, the prices of rare earth materials saw drastic fluctuations as China tightened its control over rare earth resources; on the other hand, the market demand for rare earth materials was shrinking as a result of an obviously weakening global economy. Facing a complex external business environment, the Group took the initiative, conducted prudent analysis and successfully secured orderly and stable production and sale of luminous materials. By way of improving product quality and after-sales services, implementing differentiated marketing campaigns and reasonably adjusting selling prices, the Group effectively addressed the drastic price fluctuations of raw materials; by way of energy saving and enhanced cost control, the Group further raised the market competitiveness of its products; and by way of strengthening technical research and development and increasing marketing efforts, the Group further broadened its product range and greatly sped up the commercialisation of its new products. During the reporting period, the sales volume of the Group's energy saving lamp phosphor basically remained the same level as that of the previous year; the sales volume of CCFL phosphor recorded an increase of approximately 25% as compared to that of the previous year; and the sales of such new products as PDP phosphor, lithium battery powder and electronic silver paste remained steady with certain increase. As a whole, the Group's luminous materials businesses' results have achieved significant increase as compared to that of the previous year.

2. Business Review *(Continued)*

(2) Review of Principal Businesses *(Continued)*

- ***TFT-LCD Glass Substrate Business***

During the reporting period, the Group obtained interim achievements in the construction and operation of TFT-LCD glass substrate projects. Six LCD glass substrate production lines have been put into operation and four of them have started mass production with manufacturing craftsmanship and comprehensive yield rate being improved constantly. The accreditation of LCD glass substrate products was smoothly progressing. Currently, four downstream users have completed the accreditation. Products sales in batch have been made to two users and pre-purchase negotiations were under way with two users with sales in batch on the horizon.

- ***Display Device Business***

During the reporting period, as the CPT industry continued to shrink rapidly, the Group adopted a series of effective measures to minimize the impact of CPT business on our operation results so as to secure a smooth transition from an old industry to a new one. The Group will shut down its CPT production lines and quit this industry in 2012.

The Group's production line of PM-OLED, the third generation display device, has been put into production.

3. Future Prospects

Looking into 2012, the Group will adhere to the operational guideline of "achieving steady and fast growth by adjustment and optimization", strengthen its independent innovation and improve its operating results. The Group is to witness a new chapter in its operations.

As the newly-built solar photovoltaic glass business projects are to put into operation in succession, both the output and sales will see rapid increase with more apparent scale advantages and increasing market competitiveness. In addition, progress will be made in the development of the Group's value-added glasses such as coated glass.

As to the luminous material business, while ensuring the satisfactory performance of the business of energy saving lamp phosphors, the Group will further promote the commercialisation of its new products such as electronic silver paste, PDP phosphor and lithium battery powder.

As to LCD glass substrate business, the production craftsmanship will be improved in a continuous manner, and a breakthrough will be achieved in product sales. Other production lines that are under construction will also be proceeded smoothly as scheduled and be put into operation in succession, which will constantly provide and enhance economies of scale and competitive advantages to the Group's LCD glass substrate business.

4. Financial Review

(1) Results

Profit and loss data for 2007-2011 (RMB'000)

	2007	2008	2009	2010	**2011**
Turnover	3,358,990	3,541,920	2,097,251	2,717,770	**3,270,348**
Sales of CPTs and components	2,849,247	3,060,108	1,351,458	1,368,502	**511,050**
Sales of luminous materials	341,007	375,977	289,503	463,014	**1,088,734**
Sales of liquid crystal related products	168,736	105,835	456,290	747,605	**1,310,085**
Sales of solar photovoltaic glass	—	—	—	138,649	**355,475**
Sales of TFT-LCD glass substrate and display devices	—	—	—	—	**5,004**
Cost of sales	(3,002,987)	(2,913,300)	(2,188,395)	(2,311,974)	**(3,164,459)**
Gross profit	356,003	628,620	(91,144)	405,796	**105,889**
Operating expenses					
Administrative expenses	(238,790)	(368,698)	(422,267)	(244,762)	**(325,703)**
a) General administrative expenses	(216,112)	(342,119)	(395,501)	(224,722)	**(306,785)**
b) Research and development expenses	(22,678)	(26,579)	(26,766)	(20,040)	**(18,918)**
Distribution expenses	(162,073)	(176,558)	(95,047)	(107,415)	**(86,412)**
Other operating expenses	(42,055)	(11,501)	(17,743)	(18,592)	**(6,776)**
Operating profit (loss)	91,520	158,068	(1,515,475)	132,745	**(532,671)**
Finance costs	(66,729)	(59,046)	(39,690)	(64,530)	**(79,736)**
Profit (loss) attributable to owners of the Company	64,663	94,908	(1,113,014)	29,075	**(253,038)**

4. Financial Review *(Continued)*

(1) Results *(Continued)*

Turnover by product (RMB'000)

Name	**2011**	2010	Increase / (decrease)	Change
CPTs and components	**511,050**	1,368,502	(857,452)	(62.66)%
Luminous materials	**1,088,734**	463,014	625,720	135.14%
Liquid crystal related products	**1,310,085**	747,605	562,480	75.24%
Solar photovoltaic glass	**355,475**	138,649	216,826	156.38%
TFT-LCD glass substrate and display device	**5,004**	—	5,004	—
Total	**3,270,348**	2,717,770	552,578	20.33%

(2) Change over last year and reasons

- ***Turnover and gross profit margin***

In 2011, the Group recorded a turnover of RMB3,270,348,000, representing an increase of RMB552,578,000, or 20.33% from 2010. Of which, turnover of the CPTs and components business amounted to RMB511,050,000, representing a decrease of RMB857,452,000 or 62.66% from 2010; turnover from luminous materials amounted to RMB1,088,734,000, representing an increase of RMB625,720,000 or 135.14% from 2010; turnover from liquid crystal related products amounted to RMB1,310,085,000, representing an increase of RMB562,480,000 or 75.24% from 2010; and turnover from solar photovoltaic glass amounted to RMB355,475,000, representing an increase of RMB216,826,000 or 156.38% from 2010; The overall gross profit margin of the Group decreased from 14.93% in 2010 to 3.24% in 2011, which was mainly attributable to (1) the profitability of CRT and photovoltaic glass business declined due to the effects of European debt crisis; and (2) impairment provision of RMB156,628,000 made for certain inventory.

4. Financial Review *(Continued)*

(2) Change over last year and reasons *(Continued)*

• *Administrative expenses*

The Group's administrative expenses for 2011 increased by RMB80,941,000, or 33.07%, to RMB325,703,000 from RMB244,762,000 in 2010. The increase in administrative expenses was mainly attributable to (1) the shrinking CPT industry and excess production capacity which led to more shutdown losses; and (2) office premises of certain newly-built projects were completed and transferred into fixed assets which led to increase in depreciation.

• *Finance costs*

The Group's finance costs in profit and loss for 2011 was RMB79,736,000 (net of interest expense capitalised amounting to RMB178,975,000), representing an increase of RMB15,206,000, or 23.56%, from RMB64,530,000 in 2010. The increase in finance cost was mainly attributable to more bank borrowings and finance lease payments for development of new business and higher interest rates for bank loans.

(3) Current assets and financial resources

As at 31 December 2011, the Group's cash and bank balances amounted to RMB2,080,334,000, representing a decrease of 22.91% from RMB2,698,430,000 as at 31 December 2010. For the year ended 31 December 2011, the Group's capital expenditures totalled RMB3,449,220,000 (31 December 2010: RMB4,337,350,000). Net cash from operating activities amounted to RMB327,074,000 (31 December 2010: RMB305,044,000), while net cash from financing activities and net cash from investing activities were RMB2,064,551,000 (31 December 2010: RMB5,383,876,000) and RMB-3,009,882,000 (31 December 2010: RMB-4,070,671,000) respectively. As at 31 December 2011, the Group's total borrowings was RMB5,777,233,000 of which borrowings due within one year amounted to RMB1,568,601,000 and borrowings with maturity beyond one year amounted to RMB4,208,632,000. As at 31 December 2010, the Group's total borrowings was RMB3,620,040,000, of which borrowings due within one year amounted to RMB1,173,272,000 and borrowings with maturity beyond one year amounted to RMB2,446,768,000.

4. Financial Review *(Continued)*

(3) Current assets and financial resources *(Continued)*

As at 31 December 2011, the Group's bank loans amounting to approximately RMB3,430,172,000 (31 December 2010: RMB2,177,768,000) were secured by certain properties, plants and equipment, land use rights and inventories of the Group with an aggregate net book value of approximately RMB2,007,041,000 (31 December 2010: RMB1,002,247,000). As at 31 December 2011, the bank borrowings guaranteed by the Company's ultimate holding company amounted to approximately RMB919,000,000 (31 December 2010: RMB476,000,000).

For the year ended 31 December 2011, the turnover days for trade receivables of the Group was 60 days, representing a decrease of 4 days as compared to 64 days for the year ended 31 December 2010 which was mainly attributable to the intensified efforts made by the Group to recover trade receivables while expanding the market, which led to year-on-year increase of sales by 20.33% and year-on-year increase of trade receivables by 14.15%. For the year ended 31 December 2011, the inventory turnover days of the Group was 46 days, representing a decrease of 50 days from 96 days for the year ended 31 December 2010, which was mainly attributable to the effective measures taken by the Group to strengthen inventory control and management and reduce inventory.

(4) Capital structure

As at 31 December 2011, the Group's borrowings were mainly denominated in Renminbi and US dollar, while its cash and bank balances were mainly denominated in Renminbi, Hong Kong dollar and US dollar. The Group intends to maintain a suitable ratio of share capital to liabilities, to ensure an effective capital structure. As at 31 December 2011, its total liabilities including bank loans and finance lease commitments were RMB5,937,476,000 (31 December 2010: RMB3,620,040,000) while cash and bank balances was RMB2,080,334,000 (31 December 2010: RMB2,698,430,000) and the gearing ratio (total liabilities/total assets) was 62.0% (31 December 2010: 47.0%).

(5) Dividend

The Company's dividend policy will remain unchanged. In light of the absence of undistributed surplus in 2011, the Company resolved not to distribute any final dividend.

(6) Foreign exchange risk

The Group's income and most of its expenses are denominated in Renminbi and US dollar. For the 12 months ended 31 December 2011, the operating cost of the Group increased by RMB10,875,000 (31 December 2010: RMB6,637,000) as a result of exchange rate fluctuations.

4. Financial Review *(Continued)*

(7) Commitments

As at 31 December 2011, capital expenditure commitments of the Group amounted to RMB2,586,802,000 (as at 31 December 2010: RMB1,874,721,000), which were mainly financed by the Group's working capital.

(8) Contingent liabilities

As at 31 December 2011, the Group had no material contingent liability.

(9) Pledged assets

As at 31 December 2011, the Group's bank loans amounting to approximately RMB3,430,172,000 (31 December 2010: RMB2,177,768,000) were secured by certain properties, plants and equipment, land use rights and inventories of the Group with an aggregate net book value of approximately RMB2,007,041,000 (31 December 2010: RMB1,002,247,000).

The Group's finance lease commitments were secured by certain properties, plants and equipment of the Group with an aggregate net book value of approximately RMB222,996,000.

(10) Impairment of property, plant and equipment

Due to the continued contraction of CPT industry, the Company had shut down certain CPT production lines. Pursuant to relevant requirements of the Accounting Standards for Business Enterprises, the Company made a provision of RMB105,234,000 for impairment of those CPT production lines and ancillary production equipment.

IRICO (Foshan) Flat Panel Display Co., Ltd. has conducted a full analysis and assessment on the quality of the assets of phase 1 project, and identified certain indication that part of those assets has suffered an impairment loss. As such, the Company made a provision of RMB39,948,000 for impairment of the project according to relevant requirements of the Accounting Standards for Business Enterprises.

Given the foreign technological monopoly and blockade, the Company independently developed the full set of techniques and craftsmanship of TFT-LCD glass substrate phase 1 project. So far the project has not yet reached the intended condition for use, and the expenses for modification and pilot production far exceeded the budget. After a full analysis and assessment on the quality of the assets of the project, the Company considered that there existed certain indicators of impairment of part of the assets. Accordingly, the Company made a provision of RMB271,362,000 for impairment of the project under construction according to relevant requirements of the Accounting Standards for Business Enterprises.

Directors

Executive Directors

Xing Daoqing	57	Chairman (passed away on 6 November 2011)
Tao Kui	59	Vice Chairman
Zhang Junhua	53	President

Non-executive Directors

Guo Mengquan	55
Niu Xinan	51
Fu Jiuquan*	42
Zhang Weichuan	57

Independent Non-executive Directors

Xu Xinzhong*	48
Feng Bing*	45
Wang Jialu	51
Lv Hua*	55
Zhong Pengrong*	59

* Member of the Audit Committee

Mr. Xing Daoqin（邢道欽）(passed away on 6 November 2011), aged 57, is an executive Director and the chairman of the Company (the "Chairman"). Mr. Xing joined the Group in February 1982. Mr. Xing graduated from Xi'an Jiaotong University（西安交通大學）with master degree in automation. He also graduated from EMBA of Tsinghua University. In 1996, Mr. Xing was awarded a special government allowance for experts by the State Council of the PRC. He is a senior engineer at a professor level. Mr. Xing was the deputy general manager of IRICO Group Corporation (the "IRICO Group") since March 2001 and has been the general manager of IRICO Group since July 2005. He once was the factory manager of Caihong Glass Factory under IRICO Colour Picture Tube Plant ("CPT Plant"), the head of the Electronic Glass Department of IRICO Group, the deputy factory manager of CPT Plant and the chairman of the board of directors of IRICO Display Devices Co., Ltd..

Mr. Tao Kui（陶魁）, aged 59, is an executive Director and the vice chairman of the Company (the "Vice Chairman"). Mr. Tao joined the Group in September 1978. Mr. Tao graduated from South East University（東南大學）(formerly known as Nanjing Institute of Technology) with a bachelor's degree in electrical vacuum devices and is qualified as a senior engineer. Mr. Tao served as a Director of IRICO Group from November 1995 to February 2001 and has been serving as the deputy general manager of IRICO Group since March 2001. Before that, he was the factory manager of both the Phosphor Powder Factory and the Glass Factory under Shaanxi Colour Picture Tube Plant (the "SCPT") and the deputy factory manager of CPT Plant.

Directors *(Continued)*

Mr. Zhang Junhua (張君華), aged 53, is an executive Director and the president of the Company (the "President"). He is fully responsible for overall management of the Company's operations. Mr. Zhang joined the Group in December 1984. Mr. Zhang graduated from Shaanxi Mechanical College (陝西機械學院) with a bachelor's degree in machinery manufacturing and is a senior engineer. At present, he serves as the chairman of the board of directors of Xi'an New Century Club. He was appointed as the deputy general manager of IRICO Group on 9 December 2010. Before that, he served as the deputy head and the head of the metering & energy conservation department of the No. 2 Colour Picture Tube Factory under CPT Plant, chairman of the board of directors of Xi'an Caihui Display Technology Co., Ltd., assistant to the general manager, the deputy general manager, the general manager, the vice chairman of the board of directors of IRICO Display Devices Co., Ltd., the general manager and the chairman of the board of directors of Xianyang IRICO Digital Display Technology Co., Ltd. and the vice president of the Company (the "Vice President").

Mr. Guo Mengquan (郭盟權), aged 55, is a non-executive Director of the Company. Mr. Guo joined the Group in September 1983. Mr. Guo graduated from Northwestern Polytechnical University (西北工業大學) with a bachelor's degree in control and manipulation of aviation fluid mechanics and from Shaanxi MBA College with an MBA. He is a senior engineer at a professor level. Mr. Guo has been serving as the deputy general manager of IRICO Group since March 2001. He once was the factory manager of the glass factory under Shaanxi IRICO Colour Picture Tube Plant, the vice chairman of IRICO Display Device Co., Ltd. and the President of the Company.

Mr. Niu Xinan (牛新安), aged 51, is a non-executive Director of the Company. Mr. Niu joined the Group in August 1981. Mr. Niu graduated from Northwestern University (西北大學) with a bachelor's degree in administrative management and is a senior engineer. Mr. Niu has been serving as the party's Vice-secretary and the Secretary to the disciplinary committee of IRICO Group. In June 2002, he was elected as the chairman of the labor union of IRICO Group. Before that, Mr. Niu held such positions as the factory manager of No. 1 Colour Picture Tube Factory under CPT Plant and the deputy director of its product design institute, the manager of the display devices department and the factory manager of the No. 1 Colour Picture Tube Factory under CPT Plant, the factory manager of the Inner Mongolia Television Factory (內蒙古電視機廠), the deputy factory manager of CPT Plant, a shareholder supervisor and the chairman of the supervisory committee of the Company (the "Supervisory Committee").

Mr. Fu Jiuquan (符九全), aged 42, is a non-executive Director of the Company. Mr. Fu joined the Group in July 1990. Mr. Fu graduated from Guilin Electronic Industry College (桂林電子工業學院) with a bachelor's degree in finance and accounting. Mr. Fu has obtained a master qualification in Xi'an Jiaotong University. He is a senior accountant and currently the chief accountant of IRICO Group. Mr. Fu once served as the director of the finance division of CPT Plant, the manager of the assets finance department of IRICO Group, a shareholder supervisor and the chairman of the Supervisory Committee of the Company.

Directors *(Continued)*

Mr. Zhang Weichuan (張渭川), aged 57, is a non-executive Director of the Company. Mr. Zhang joined the Group in August 1978. He graduated from Northwestern Telecommunication Engineering College (西北電訊工程學院) with a bachelor's degree in electrical vacuum devices. He is a senior engineer at a researcher level. He is currently the manager of the strategic planning department of IRICO Group, and had served as director of the quality assurance department and the deputy chief engineer of CPT Plant, the general manager of IRICO (Zhangjiagang) Flat Panel Display Company Limited (彩虹(張家港)平板顯示有限公司), the manager of the technology and quality department of IRICO Group, the manager of the planning and development department of the Company and a staff supervisor of the Company.

Mr. Xu Xinzhong (徐信忠), aged 48, is an independent non-executive Director of the Company and currently the president of the Lingnan College of Sun Yat Sen University. Mr. Xu joined the Group in September 2004. Mr. Xu obtained his bachelor's degree in meteorology from Beijing University (北京大學), his MBA degree from Aston University in the United Kingdom and his doctoral degree in finance from Lancaster University in the United Kingdom. He worked as a lecturer and senior lecturer of the Faculty of Accounting and Finance at Manchester University in the United Kingdom and was a professor and a chair in Finance of the Faculty of Management at Lancaster University in the United Kingdom. Mr. Xu was a professor of Guanghua Management College of Beijing University and Dean of its Faculty of Finance from January 2002 to 2007, and the vice president and a professor in finance of Guanghua Management College of Beijing University from 2007 to April 2011. Mr. Xu was also awarded the Prize for the Best Manuscript (最佳論文獎) by British Accounting Review in 1997.

Mr. Feng Bing (馮兵), aged 45, is an independent non-executive Director of the Company and currently the chief strategy officer of Dare Technologies Global Co., Ltd (大亞科技集團有限公司首席戰略官). Mr. Feng joined the Group in September 2004. He obtained his bachelor's degree in computer software from Northwestern Polytechnical University, his master's degree in engineering from Calculation Technology Research Institute of Chinese Academy of Sciences (中國科學院計算技術研究所) and his master of science degree in finance from the School of Management at Syracuse University. He was a part-time tutor in optional practical training of the Faculty of Commerce at Syracuse University, a senior manager of Deloitte Touche Tohmatsu in the United States and an executive director and the deputy general manager of China Financial and Consulting Company (中華財務咨詢公司).

Mr. Wang Jialu (王家路), aged 51, is an independent non-executive Director of the Company and a partner of Commerce & Finance Law Office (通商律師事務所). Mr. Wang joined the Group in September 2004. He completed his course for master's degree in business administration from Guanghua Management College of Beijing University and the course for juris doctor from Marburg University of Germany, and received his MBA degree from Beijing University and his LLM degree from the Law School of Marburg University of Germany. He is an arbitrator in the Beijing Arbitration Commission (北京仲裁委員會) and an adjunct lecturer for master's degree course in the Law Faculty of Beijing University.

Directors *(Continued)*

Mr. Lv Hua（呂樺）, aged 55, is an independent non-executive Director of the Company. He holds a master's degree. He is a certified accountant and a certified tax consultant in China. Mr. Lv joined the Group in September 2007. He currently serves as the chairman (chief accountant) of the Xigema Certified Public Accountants Co., Ltd. in Xi'an as well as the vice chairman of Shaanxi Certified Public Accountants Association（陝西省註冊會計師協會）, the vice chairman of Shaanxi Asset Appraisal Association, the executive member of Shaanxi Research Society of the Economic Systems Restructuring（陝西省體制改革研究會）and the vice chairman of General Chamber of Commerce of Xi'an City (西安市商業聯合會). He was consecutively awarded various titles such as "Excellent Youth Entrepreneur in Shaanxi Province" (陝西省杰出青年實業家), "New Long March Pioneer of Shaanxi Province"（陝西省新長征突擊手）, "Top Ten News Figures of Finance and Financial System in Shaanxi Province"（陝西省財政、金融系統十大新聞人物）and "Top 10 Excellent Economic Figures of Shaanxi"（陝西十大杰出經濟人物）.

Mr. Zhong Pengrong（鍾朋榮）, aged 59, is an independent non-executive Director of the Company. Mr. Zhong graduated from Zhongnan University of Finance and Economics（中南財經大學）with a master's degree in China's economic issues. He joined the Group in September 2007. Mr. Zhong is the chairman of Beijing Shiye Consultancy Centre as well as professors of various universities such as Northwest University, Central University of Finance and Economics and Zhongnan University of Economics and Law. He also works as an economic consultant for numerous sizable enterprises and regional governments, formulating strategic proposals and restructuring proposals for over a hundred enterprises alongside strategic development plans for more than sixty cities at regional and county level. Apart from working in the investigation and research office of the Central Office（中央辦公廳調研室）, he has also published hundreds of essays on economy on newspapers and magazines such as "People's Daily", "Economic Daily, PRC" and "Guang Ming Daily". He also published many books such as "100 National Measures"（百條治國大計）, "Macro-economics Theory"（宏觀經濟論）and "Research on Inflation in China"（中國通貨膨脹研究）.

Supervisors

Wang Qi	53	Shareholder Supervisor, Chairman of the Supervisory Committee
Fu Yusheng	53	Staff Supervisor
Tang Haobo	52	Staff Supervisor
Sun Haiying	68	Independent Supervisor
Wu Xiaoguang	54	Independent Supervisor

Supervisors:

Ms. Wang Qi（王琪）, aged 53, is a shareholder supervisor of the Company and the chairperson of the Supervisory Committee of the Company. Ms. Wang joined the Group in July 1979. Ms. Wang obtained her tertiary diploma from Hangzhou Institute of Electronics Engineering（杭州電子工業學院）majoring in accounting and is a senior accountant. Ms. Wang was once the head of the financial department in IRICO Glass Factory, the chief accountant of Xi'an IRICO Electronic Industrial Co., Ltd. and the manager of the assets finance department of IRICO Group.

Supervisors *(Continued)*

Supervisors: *(Continued)*

Mr. Fu Yusheng (付玉生), aged 53, is a staff supervisor of the Company. Mr. Fu joined the Group in January 1981. Mr. Fu graduated from Northwest University majoring in economic management, with a tertiary diploma. Mr. Fu is currently the head of IRICO Glass Factory. He once held positions including director of the screen workshop of IRICO Glass Factory, the vice manager of IRICO Accessory Factory and the vice manager of IRICO Glass Factory.

Mr. Tang Haobo (唐浩波), aged 52, is a staff supervisor of the Company. Mr. Tang joined the Group in August 1981. Mr. Tang graduated from Xi'an School of Radio Industry majoring in radio with the educational background of secondary technical school, and then obtained a tertiary diploma in corporate management from IRICO University for Staff and Workers. He is currently the general manager of the operation department of the Company and once held positions including vice head of the motor-driving section and head of the equipment design office of the No. 2 Colour Picture Tube Factory, deputy general manager of Shenzhen IRICO Huangqi Company Limited (深圳彩虹皇旗公司), vice head of No. 1 Colour Picture Tube Factory, manager of IRICO Equipment Company Limited, vice head of IRICO Electron Gun Factory, and vice general manager of operation department of the Company.

Mr. Sun Haiying (孫海鷹), aged 68, is an independent supervisor of the Company and joined the Group in September 2004. Mr. Sun graduated from the Northwest University in geography. He is currently the head and a professor of the Environmental Science and Engineering Centre of Xi'an Jiaotong University, a member of the standing committee of the Shaanxi province's People's Political Consultative Conference and the head of the Committee of Science and Technology of Shaanxi Province, an adjunct professor of the Institute for Enterprises of the Hong Kong Polytechnic University. He was a director of the Shaanxi Province Meteorological Bureau (陝西省氣象局), the director of Shaanxi Province Science and Technology Department (陝西省科學技術廳). He was a group leader of the Planning Strategy Study Group under the State Mid-and Long-term Science and Technology Development Planning Team (國家中長期科學和技術發展規劃領導小組的規劃戰略研究專題組) in August 2004.

Ms. Wu Xiaoguang (吳曉光), aged 54, is an independent supervisor of the Company and joined the Group in September 2004. Ms. Wu received her bachelor's degree in economics from the Economic Management College of Northwest University. She was a graduate majoring in accounting in School of Management of Xi'an Jiaotong University, and was awarded a master's degree of business administration upon graduation by the Faculty of Business of The Hong Kong Polytechnic University. She is currently a deputy professor of the School of Management at Xi'an Jiaotong University and the head of the ACCA (Association of Chartered Certified Accountants) Project Centre. Ms. Wu is a part-time professor of the Chinese (Hainan) Reform and Development Research Institute (中國(海南)改革發展研究院), the chairman and general manager of Xi'an Wanguantong Financial Management Consulting Co., Ltd., an independent director of Nanjing Baose Co., Ltd., and an expert consultant of Shaanxi Province Venture Capital Association. She holds positions as expert consultant in Beijing Jinrui Junan Taxation Co, China Tax Consulting Information Web, China Industry and Economic News Web and Beijing Zhongbao Weiye Information Consulting Firm.

Supervisors *(Continued)*

Other Senior Management:

Zhang Chunning	52	Vice President
Zou Changfu	53	Vice President
Ma Jianchao	53	Chief Financial Controller
Chu Xiaohang	42	Joint Company Secretary
Lam Chun Lung	39	Qualified Accountant and Joint Company Secretary

Mr. Zhang Chunning (張春寧), aged 52, is a Vice President of the Company. He is responsible for the sales and marketing of products, technology and quality and innovation of new products. Mr. Zhang joined the Group in November 1985. Mr. Zhang graduated from the Faculty of Chemistry of Northwest University with a bachelor's degree in science (chemistry) and from Xi'an Jiaotong University with a master's degree in management (business administration). He is now pursuing his doctorate degree in management (business administration) at Xi'an Jiaotong University. He was the deputy head and head of the Workshop of No. 2 Colour Picture Tube Factory under SCPT Plant, the head of IRICO Phosphor Factory under CPT Plant, the general manager of Shaanxi IRICO Phosphor Materials Co., Ltd. (陝西彩虹熒光材料有限公司), the assistant to the President and the joint company secretary of the Company (the "Joint Company Secretary").

Mr. Zou Changfu (鄒昌福), aged 53, Vice President of the Company, is responsible for the production operation, safety, environmental protection, fire safety, security and material support. Mr. Zou joined the Group in August 1981. Mr. Zou obtained a bachelor's degree and is a senior engineer. He was the general manager of Shenzhen Hongyang Industry and Trade Company Limited from February 2001 to February 2003; and the general manager of IRICO Kunshan Holdings (彩虹昆山實業) and the chairman of the board of directors of IRICO Yingguang Electrics Limited Company(彩虹櫻光電子股份公司) from February 2003 to December 2005. He was the general manager of the purchase department of the Company from December 2005 to May 2010, and assistant to the President from December 2007 to 16 May 2010.

Mr. Ma Jianchao (馬建朝): aged 53, is the chief financial officer of the Company. He joined the Group in January 1986. Mr. Ma graduated from Chengdu Radio Engineering College (成都電訊工程學院) (currently known as University of Electronic Science and Technology of China(電子科技大學)) with a bachelor's degree in computer science, and subsequently obtained the qualification of industrial accounting from Hangzhou Institute of Electronics Engineering(杭州電子工業學院). He furthered his study in the master's program of accounting at the Xi'an Jiaotong University(西安交通大學). He is a senior accountant and senior engineer. He served as chief financial officer and deputy general manager of Royal Rainbow Hotel in Australia from September 1995 to November 1997. He served as chief financial officer of China National Electronics Imp. & Exp Caihong Company(中國電子進出口彩虹公司)from March 1999 to March 2005, during which he served as vice director of the audit department of IRICO Group from April 2001 to March 2002. He served as the general manager of the financial department of the Company from March 2005 to 16 May 2010.Mr. Ma has experience in finance, computer, foreign trade and hotel, especially over 20 years' experience in operation and financial management.

Supervisors *(Continued)*

Other Senior Management: *(Continued)*

Mr. Chu Xiaohang（褚曉航）, aged 42, a Joint Company Secretary of the Company, is responsible for the securities management, legal matters and investor relations of the Company. Mr. Chu joined the Group in July 1991. Mr. Chu graduated from Northwest University with a bachelor's degree in computer science and is a senior engineer. He obtained a master's degree in project management from the Graduate School of Chinese Academy of Sciences. He worked at IRICO Glass Factory and served as a senior project management engineer in the strategic planning department of IRICO Group and head of the office of the board of directors of the Company. He has been our Joint Company Secretary since November 2009.

Mr. Lam Chun Lung（林晉龍）, aged 39, qualified accountant and Joint Company Secretary of the Company. Mr. Lam joined the Group in August 2006. Mr. Lam graduated from The Hong Kong University of Science and Technology with a bachelor's degree (first honour) in business administration (accounting) in May 1998, and from the City University of Hong Kong with a master's degree in business administration in July 2006. He had been the head of auditing in S C To & Co.（杜昭紹會計師事務所）, and the accountant and finance manager of Colliers Jardine International. Mr. Lam is a member of both of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.

Changes of Directors, Supervisors and Senior Management

For details of changes of Directors, supervisors and senior management, please refer to the "Directors, Supervisors and Senior Management" section within the Report of the Directors.

The Board hereby presents the report of the Directors and the audited financial report of the Group for the year ended 31 December 2011 to the Shareholders.

Principal operations

The Group is principally engaged in the production and sales of solar photovoltaic glass, luminous materials, LCD glass substrates as well as display devices and accessories.

Results and dividend

The turnover of the Group in 2011 was RMB3,270,348,000, operating losses were RMB532,671,000, gross profit margin was 3.24% and losses attributable to owners of the Company amounted to RMB253,038,000 and the comprehensive losses attributable to owners of the Company amounted to RMB256,468,000.

The annual results of the Group for the year ended 31 December 2011 and its financial status as at the same date prepared in accordance with accounting principles generally accepted in Hong Kong are set out from page 56 to 169 of this annual report.

The Company's dividend policy will remain unchanged. In light of the absence of accumulated surplus in 2011, the Board has decided not to distribute any final dividend for the year ended 31 December 2011.

Five year financial summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five years, as extracted from the audited and adjusted (if applicable) financial statements, is set out on page 170 of this annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of the changes of property, plant and equipment of the Group in the year of 2011 are set out in note 17 to the financial statements.

Share capital

Details of the Company's share capital in 2011 and as of 31 December 2011 are set out in note 34 to the financial statements.

Purchase, redemption and sale of shares of the Company

Neither has the Company nor any of its subsidiaries purchased, redeemed or sold any shares of the Company during this reporting period.

Reserves

Details of the movements of reserves of the Company and of the Group during 2011 are set out in note 35 to the financial statements.

Major customers and suppliers

The percentage of purchases from the major suppliers and sales to the major customers of the Group is set out as follows:

Purchase

— largest supplier, accounting for 10% of the total purchase amount

— five largest suppliers, accounting for 32% of the total purchase amount

Sales

— largest customer, accounting for 7% of the total sales amount

— five largest customers, accounting for 23% of the total sales amount

As the Company has identified an established supplier with strength sufficient to provide a relatively high proportion of raw materials. Hence, the five largest suppliers accounted for 32% of our total purchase amount. To the best knowledge of the Directors, none of the Directors, their respective associates or any Shareholder holding more than 5% of the issued share capital of the Company, had any interest in the above-mentioned major suppliers and customers.

Directors, Supervisors and Senior Management

Directors, supervisors and senior management of the Company for the year of 2011 were as follows:

Name	Positions	Date of appointment/re-designation/ resignation during the reporting period
Xing Daoqin	Executive Director and Chairman	Passed away on 6 November 2011
Tao Kui	Executive Director and Vice Chairman	
Zhang Junhua	Executive Director, President and Authorized Representative	
Guo Mengquan	Non-executive Director	
Niu Xin'an	Non-executive Director	
Fu Jiuquan	Non-executive Director	
Zhang Weichuan	Non-executive Director	
Xu Xinzhong	Independent Non-Executive Director	
Feng Bing	Independent non-executive Director	
Wang Jialu	Independent non-executive Director	
Lv Hua	Independent non-executive Director	
Zhong Pengrong	Independent non-executive Director	
Wang Qi	Supervisor and Chairman of the Supervisory Committee	
Tang Haobo	Supervisor	
Fu Yusheng	Supervisor	
Wu Xiaoguang	Supervisor	
Sun Haiying	Supervisor	
Zhang Chunning	Senior management and Vice President	
Zou Changfu	Senior management and Vice President	
Ma Jianchao	Senior Management and Chief Financial Officer	
Chu Xiaohang	Joint Company Secretary and Authorized Representative	
Lam Chun Lung	Joint Company Secretary and Qualified Accountant	

Brief biographical details of Directors, supervisors and senior management are set out on pages 17 to 23.

Each of the independent non-executive Directors has issued a confirmation in respect of the requirement set out in Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") concerning his independence. The Company considers all of the independent non-executive Directors to be independent.

Remuneration of Directors and the Five Highest Paid Individuals

Details of the remuneration of Directors and the five highest paid individuals of the Group are set out in note 13 to the financial statements.

There were no arrangements under which a Director or supervisor of the Company had waived or agreed to waive any remuneration in respect of the year ended 31 December 2011.

Share Appreciation Rights Plan

Pursuant to the Share Appreciation Rights Plan of the Company (details of which were set out in the Company's prospectus dated 8 December 2004), up to 31 December 2011, the following Directors, supervisors and senior management members of the Company held share appreciation rights granted by the Company as follows:

Name	**Number of Share Appreciation Rights** *(Shares)*	**Note**
Tao Kui	1,590,000	Director
Zhang Junhua	1,360,000	Director
Guo Mengquan	1,330,000	Director
Niu Xin'an	1,200,000	Director
Fu Jiuquan	850,000	Director
Zhang Weichuan	1,000,000	Director
Fu Yusheng	600,000	Supervisor
Tang Haobo	400,000	Supervisor
Zhang Chunning	600,000	Senior management
Zou Changfu	800,000	Senior management
Ma Jianchao	600,000	Senior management
Chu Xiaohang	330,000	Senior management

Directors' and Supervisors' interests in contracts

Save as disclosed in this report, no contract of significance in relation to the Company's business to which the Company or its subsidiaries were a party and in which a Director or a supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or anytime during 2011.

Directors' and Supervisors' service contracts

Each of the Directors and supervisors has entered into a service contract with the Company. None of the Directors or supervisors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not terminable by the Company or its subsidiaries within a year without payment of any compensation (other than statutory compensation).

Interests of Directors, Supervisors and Chief Executive in shares of the Company and its associated corporations

Save as the interests mentioned in the section headed "Share Appreciation Rights Plan" above, during the year ended 31 December 2011, none of the Directors, supervisors, or chief executive or their respective associates had any interests in the shares, underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are (a) required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO; (b) required to be recorded in the register of interests kept by the Company pursuant to section 352 of the SFO; (c) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules.

During the year ended 31 December 2011, none of the Directors, chief executive, supervisors, senior management, their spouses or children under the age of 18 was given the right to acquire shares or debentures of the Company or its associated corporations (within the meaning of the SFO).

Interests and short positions of substantial shareholders and other parties

So far as the Directors are aware, each of the following persons, not being a Director, supervisor, chief executive or member of the Company's senior management, had an interest or short position in the Company's shares or underlying shares (as the case may be) ending at 31 December 2011 and as entered in the register of interests to be kept pursuant to section 336 of the SFO:

IRICO Group had interests in 1,601,468,000 domestic shares of the Company (representing 100% of the domestic share capital), whereas HKSCC Nominees Limited had interests in 629,096,189 H Shares of the Company (representing 99.71% of the H Share capital). Tao Kui, Guo Mengquan, Fu Jiuquan and Zhang Junhua, each being a Director of the Company, concurrently act as the assistant general manager, the assistant general manager, the chief accountant and the assistant general manager of IRICO Group, respectively.

Interests and short positions of substantial shareholders and other parties *(Continued)*

Notes:

As at 31 December 2011, based on the information available to Directors and so far as the Directors are aware, HKSCC Nominees Limited held 629,096,189 H Shares, among which:

Baystar Capital II, L.P. had beneficial interests in 49,554,000 H Shares of the Company (representing approximately 7.85% of the issued H shares of the Company). Each of Baystar Capital Management LLC, Mr. Derby Steven P., Mr. Goldfarb Lawrence and Mr. Lamar Steven M. was deemed to be interested in the same number of H shares of the Company by virtue of their direct or indirect control of Baystar Capital II, L.P.

J.P. Morgan Fleming Asset Management Holdings Inc. held 33,742,000 H shares of the Company (representing 5.35% of the issued H shares of the Company) in the capacity of investment manager and through its controlled corporations, of which 33,198,000 H shares of the Company were held by JF Asset Management Limited and the remaining 544,000 H shares of the Company were held by JF International Management Inc.

Pictet Asset Management Limited held direct interests in 27,488,000 H shares of the Company (representing approximately 4.36% of the share capital of H shares) on behalf of Pictet Funds Asian Equities (holding interests in 28,504,400 shares).

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during 2011.

Designated deposit and overdue time deposit

As at 31 December 2011, the Group had no designated deposits in any financial institutions in China. All of the Group's bank deposits are placed with commercial banks in China, and are in compliance with the relevant laws and regulations. There were also no instances where the Group had failed to collect any of the time deposits upon maturity.

Employees, retirement benefits and other benefits

As at 31 December 2011, the Group had 7,611* employees with various talents, of whom 10.9% were management and administrative personnel, 10.7% were technological personnel, 1.1% were accounting and audit personnel, 0.8% were sales and marketing personnel, and 76.5% were production employees. The employment and remuneration policy including retirement schemes and other benefits of the Company remained the same as set out in the Company's prospectus dated 8 December 2004. With full enthusiasm in work, the Group's employees are committed to ensure the high quality and reliability of products and services.

*: Excluding service despatch worker.

Connected transactions

The connected transactions recorded during the year of 2011 are as follows:

1. Continuing connected transactions during the year of 2011

For the year ended 31 December 2011, there were various continuing connected transactions (the "Continuing Connected Transactions") between the Group and the following connected persons of the Group (collectively, the "Connected Persons" and each a "connected person" under the Listing Rules):

(a) IRICO Group, a substantial shareholder, the sole promoter of the Company and a connected person of the Company;

(b) Xianyang Cailian Packaging Material Company Limited (咸陽彩聯包裝材料有限公司) ("Xianyang Cailian"), of which 30% equity interest is owned by IRICO Group. Xianyang Cailian was an associate of IRICO Group and therefore was a connected person of the Company;

(c) IRICO Display Devices Co., Ltd. ("A Share Company"), of which 12.06% equity interest was owned by IRICO Group after the completion of the issue of new shares by A Share Company in July 2010, was an associate of IRICO Group, and therefore a connected person of the Company after the completion of the aforesaid issue of new shares by A Share Company in July 2010.

Connected transactions *(Continued)*

1. Continuing connected transactions during the year *(Continued)*

For the year ended 31 December 2011, there were various continuing connected transactions (the" Continuing Connected Transactions") between the Group and the following connected persons of the Group (collectively, the "Connected Persons" and each a "connected person" under the Listing Rules): *(Continued)*

For the year ended 31 December 2011, the approved annual caps for each of the Continuing Connected Transactions (the "Annual Caps") and the actual revenue or expenditure in respect of each of the Continuing Connected Transactions are set out below:

No.	Item	**Annual Caps for Connected Transaction of 2011** *RMB'000*	Amount of actual revenue or expenditure for Connected Transaction of 2011 *RMB'000*
(i)	IRICO Group Master Supply Agreement		
	Supply of fuel, industrial chemical products and raw materials to IRICO Group	**61,935**	40,134
(ii)	IRICO Group Master Purchase Agreement		
	Purchase of foam plastics, wood brackets and raw materials from IRICO Group	**65,700**	35,297
(iii)	Xianyang Cailian Master Purchase Agreement		
	Purchase of packaging materials and adhesive tapes from Xianyang Cailian	**60,128**	32,513
(iv)	Comprehensive Services Agreement		
	(A) Purchase of utilities and other services from IRICO Group	**423,654**	302,375
	(B) Engagement of social and ancillary services from IRICO Group	**3,515**	2,394
(v)	Premises Leasing Agreements		
	Rental payable to IRICO Group	**40,863**	39,654
(vi)	Land Use Rights Leasing Agreements		
	Land use rights leasing fees payable to IRICO Group	**6,132**	6,132
(vii)	Trademark Licensing Agreements		
	Trademark licensing fees payable to IRICO Group	**5,000**	1,751
(viii)	A Share Company Master Supply and Purchase Agreement		
	Supply of production parts such as glass bulbs (including glass panels and glass funnels), electron guns, deflection yokes, shadow masks and frames, phosphor, metal components, frit, rubber wedges and cathode sleeves to A Share Company	**816,000**	168,718

Connected transactions *(Continued)*

1. Continuing connected transactions during the year *(Continued)*

The consideration for each of the Continuing Connected Transactions listed above during the reporting period is set out in the relevant agreements between the relevant Connected Persons and the Company, details of which were set out in the Company's circular dated 14 January 2010, the announcement dated 31 October 2011 and the circular dated 30 November 2011 respectively.

The Board is of the view that the furtherance of Continuing Connected Transactions (subject to the terms of the relevant agreements) are essential to the normal operations of the Company and is for the benefits of the Company. When the Company was listed, a waiver had been granted by the Stock Exchange from strict compliance with the Listing Rules in respect of the Company's Continuing Connected Transactions, which expired on 31 December 2006. All the renewed Continuing Connected Transactions constitute non-exempt continuing connected transactions under the Listing Rules and are required to be in compliance with the reporting, announcement and independent shareholders' approval requirements.

The Continuing Connected Transactions should be subject to the terms and conditions of the relevant agreements and Annual Caps of each of such transactions. The Annual Caps of each of such transactions, have been approved by the independent Shareholders at the Company's extraordinary general meetings held on 2 March 2010 and the revised annual caps under IRICO Group Master Supply Agreement, Xianyang Cailian Master Purchase Agreement, Comprehensive Services Agreement and Premises Leasing Agreements have been approved by the independent Shareholders at the Company's extraordinary general meetings held on 16 January 2012. The Company had complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules in its announcements dated 14 December 2009 and 31 October 2011 and its circulars dated 14 January 2010 and 30 November 2011.

The independent non-executive Directors had reviewed these Continuing Connected Transactions and confirmed to the Board that these transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreed terms of such transactions which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Connected transactions *(Continued)*

1. Continuing connected transactions during the year *(Continued)*

The auditor of the Company had provided a letter to the Directors of the Company, confirming that such Continuing Connected Transactions:

(1) had been approved by the Board;

(2) were in accordance with the pricing policies of the Company;

(3) had been entered into in accordance with the relevant agreements governing these transactions; and

(4) had not exceeded the Annual Caps.

2. One-off connected transactions

(1) (i) Very substantial disposal and connected transaction in relation to the issue of new A shares by IRICO Display Device Co., Ltd.; (ii) connected transaction in relation to the acquisition of further equity interest in IRICO (Foshan) Flat Panel Display Co., Ltd.; (iii) discloseable transaction in relation to the capital injection into IRICO (Foshan) Flat Panel Display Co., Ltd.; and (iv) very substantial acquisition in relation to the capital injection into IRICO (Foshan) Flat Panel Display Glass Co., Ltd.; among which, the Company proposed to subscribe for the new A Shares to be issued by the A Share Company with an amount ranging from RMB100 million to RMB600 million;

For details, please refer to the announcement of the Company dated 6 April 2011.

As considered and approved by the third written resolution of the Second Session of the Board in 2011, the Company proposed to terminate the IRICO Electronics Subscription Agreement and the subscription for the shares to be issued by the A Share Company by way of non-public offering. Meanwhile, it had come to the attention of the Company that IRICO Group the controlling shareholder of the Company, decided to adjust the amount for subscription for shares of the A Share Company, by way of non-public offering, from "with an amount ranging from RMB100 million to RMB400 million" to "not less than RMB800 million". The matters referred to above are subject to consideration by the board of directors of the A Share Company.

For details, please refer to the announcement of the Company dated 26 August 2011.

Connected transactions *(Continued)*

2. One-off connected transactions *(Continued)*

(2) Transfer of 87.16% equity interests in Xianyang Caiqin Electronics Device Co., Ltd.

On 7 April 2011, as considered and approved by the tenth meeting of the Second Session of the Board, the Company entered into the Equity Transfer Agreement with Shannxi IRICO Photo Electronic Material Corporation ("IRICO Photo Electronic"), pursuant to which the Company will transfer 87.16% equity interests in Xianyang Caiqin Electronic Device Co., Ltd. to IRICO Photo Electronic at a consideration of RMB36,288,885.

For details, please refer to the announcement of the Company dated 8 April 2011. The aforesaid equity transfer was completed on 5 May 2011.

(3) Provision of loan to Xi'an Cairui

On 16 November 2011, as considered and approved by the sixth written resolution of the Second Session of the Board in 2011, the Company entered into the Loan Agreement with Xi'an Cairui Display Technology Co., Ltd. ("Xi'an Cairui"), pursuant to which the Company agreed to grant to Xi'an Cairui a loan for the sum of RMB15,200,000, upon and subject to the terms and conditions set out therein.

For details, please refer to the announcement of the Company dated 16 November 2011.

Bank loans

As at 31 December 2011, details of bank loans of the Group are set out in note 31 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association ("Articles of Association") or relevant laws and regulations which could oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

Subsidiaries

Details of the subsidiaries of the Company are set out in note 21 to the financial statements.

External guarantee

The Group did not have any external guarantee during the year of 2011.

Provision for Impairment of Fixed Assets

In light of the continued rapid contraction of CRT industry during the reporting period, the Group planned to shut down CPT production line and quit the CPT industry in 2012. As such, a provision for impairment of property, plant and equipment of the Group amounting to approximately RMB416,544,000 was made for 2011. Details of the provision for impairment of fixed assets are set out in note 17 to the financial statements.

Material Litigation

As at 31 December 2011, save as disclosed below, the Directors were not aware of any other litigation or claim of material importance pending or threatened by or against any member of the Group.

- ### Claims by Fanshawe College against the Company and A Share Company

  The Company and A Share Company received a statement of claim from the Ontario Superior Court of Justice Canada in respect of a litigation brought by the Fanshawe College of Applied Arts and Technology ("Fanshawe College") in August 2009 and July 2009 respectively. The Company's preliminary assessment is that the claim will not pose any negative impact on the business operation of the Group.

- ### Claims by Curtis Saunders against the Company and A Share Company

  In January 2010, IRICO Group, the Company and A Share Company received a statement of class action from Vancouver Registry of the Supreme Court of British Columbia, Canada（加拿大不列顛哥倫比亞省高級法院溫哥華市書記官處）. The Company's preliminary assessment is that the claim will not pose any negative impact on the business operation of the Group. Please refer to the announcement of the Company dated 25 January 2010 for the details of the class action.

Material Litigation *(Continued)*

- ### Claims by American Crago Company against A Share Company

  In January 2008, A Share Company, a subsidiary of the Company, received a statement of class action from the U.S. District Court, Northern District of California in respect of a class action being brought by American Crago Company on behalf of itself and other companies for the similar issue. The Company and A Share Company's preliminary assessment is that the claim will not pose any negative impact on normal business operation of the Group.

During the reporting period, there was no latest development in the pending litigations disclosed previously. The Directors of the Company consider that such cases will not have any material impact on the financial statements of the Group for the year ended 31 December 2011. For details of such cases, please refer to the 2010 annual report of the Company dated 11 April 2011.

Contingent Liabilities

As at 31 December 2011, the Group had no significant contingent liabilities.

Code on Corporate Governance Practices

The Board has reviewed the documents regarding the Company's adoption of relevant corporate governance practices, and is of the opinion that the documents are in compliance with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules.

The Directors are not aware of any information that would reasonably reflect the non-compliance of the Company or any of its Directors with the Code at any time in the year ended 31 December 2011. The Board considers that the Company has fully complied with the principles and code provisions set out in the Code during the reporting period.

Model Code

As to securities transactions by Directors, the Company has adopted the Model Code for securities transactions by Directors of the Company. Having made specific enquiries of all Directors, the Company has confirmed that all Directors have fully complied with all the requirements set out in the Model Code.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Directors believe that the relevant minimum percentage applicable to listed securities was maintained throughout the reporting period.

Audit Committee

The audit committee of the Company has reviewed the Company's consolidated financial statements for the year ended 31 December 2011, including accounting principles adopted by the Group.

Auditor

SHINEWING (HK) CPA Limited was reappointed as the auditor of the Company for the year of 2011 at the annual general meeting held on 27 May 2011.

The financial statements of the Company for 2011 have been audited by SHINEWING (HK) CPA Limited who will retire and, being eligible, offer themselves for re-appointment subject to approval by Shareholders at the annual general meeting to be held on 5 June 2012.

By order of the Board
Tao Kui
Vice Chairman

Xianyang, the People's Republic of China
28 March 2012

In 2011, all members of the supervisory committee of the Company (the "Supervisory Committee") complied with the principle of integrity, were responsible to all Shareholders and sincerely performed the duties of supervisor to practically safeguard the interests of the Shareholders in strict compliance with relevant provisions under relevant laws and regulations of China and the Articles of Association. They supervised and examined significant operating activities, the financial status of the Company, performance of duties by the Directors and senior management and the compliance with relevant laws and regulations in 2011. I hereby present the report of 2011 as follows:

In the year of 2011, pursuant to the requirement of the Articles of Association, the Supervisory Committee has reviewed financial reports regularly. In 2011, the Supervisory Committee held two meetings to review the following proposals: the 2010 report of the Supervisory Committee, the audited financial report of 2010 and the audited interim financial report for the first half of 2011. The convening of the two meetings was in compliance with the relevant requirements of the PRC Company Law in China and the Articles of Association of the Company.

In 2011, the supervisors of the Company attended Board meetings and general meetings of the Shareholders in 2011.

Pursuant to the Company Law in China and other applicable laws and regulations and the Articles of Association, the Supervisory Committee performed serious supervision and examination on the procedures of Board meetings, resolutions, the execution by the Board of the resolutions passed in general meetings, the performance of duties by senior management and the establishment, fulfillment and thorough execution of the Company's internal control systems.

The Supervisory Committee is of the opinion that the Directors and senior management of the Company operated strictly in compliance with China's Company Law and Securities Law, the Articles of Association and other relevant regulations and rules of Hong Kong. The members of the Supervisory Committee performed their duties with integrity and diligence, and executed various resolutions and authorization passed in general meetings, to ensure that the operation of various businesses complies with the requirements of applicable laws and regulations. Through the establishment of a series of rules, the Company further improved the corporate legal structure and the internal management system and established and improved the internal control system. In the process of the examination of the financial status of the Company and the supervision of the performance of the duties of the Directors and senior management of the Company, the Supervisory Committee did not find any behaviour prejudicial to the interest of the Company and the Shareholders, nor any behaviour in contravention to laws and regulations, the Articles of Association and various rules and systems.

The Supervisory Committee is confident in the prospect of the Company and will proceed to carry out effective supervision on the operation of the Company to safeguard the interests of the Shareholders and the Company as a whole.

By order of the Supervisory Committee
Wang Qi
Chairman of the Supervisory Committee

Xianyang, the People's Republic of China
28 March 2012

The Company strives to uphold the corporate governance standard in accordance with statutory requirements and regulations. Through the establishment of a competent Board, a comprehensive internal control system and a stable corporate structure, the Company strives to ensure completeness and transparency in its information disclosure, enhance stable operation and consolidate and increase Shareholders' value and profit.

1. Corporate Governance Practices

Improvement of the internal control system was made by the Company by reviewing the Company's corporate governance practices against Code to cater for the constant development and evolvement of corporate governance.

The Board has reviewed the Company's corporate governance practices. As at 31 December 2011, the Company had applied and complied with the principles and provisions of the Code, and has adopted most of the recommended best practices contained in the code. The code on corporate governance practices adopted by the Company includes but is not limited to the following documents: the Articles of Association, Terms of Reference and working Rules for the Board, Terms of Reference and Organisation Rules for the Audit Committee, Terms of Reference and Organisation Rules for the Nomination Committee, Terms of Reference and Organisation Rules for the Strategy Committee and Terms of Reference and Organisation Rules for the Remuneration Committee. The Board also formulated Management Methods for Information Disclosure, Management Mechanism for Investor Relations and Management Mechanism for Implementation of Resolutions of the Board as relevant working rules of the Company.

The Company's code on corporate governance practices, in certain areas, exceeds the requirements of the Stock Exchange and the code provisions as set out in the Code, which mainly includes the following stricter areas:

- The Company has established the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy Committee.

- Apart from one non-executive Director, all other members of the Audit Committee are independent non-executive Directors.

2. The Board

Duties of the Board

The Board is responsible for leading and monitoring the Company's affairs. All Directors are liable to act in the best interests of the Company and collectively assume the responsibility for overseeing and monitoring the Company's affairs. The Board makes regular assessment on the management's business objectives and performance as well as exercises a variety of power in accordance with the Articles of Association, which mainly includes:

- overseeing the implementation of resolutions passed at general meetings;
- approving the Company's business plans and investment schemes;
- formulating the Company's annual financial budget schemes;
- formulating the Company's profit distribution plan;
- formulating the Company's basic management system;
- approving the Company's accounting policies and adjustment to the same; and
- approving various announcements including financial reports.

Composition

The Board currently comprises 11 Directors, including 2 executive Directors, 4 non-executive Directors and 5 independent non-executive Directors, whose biographies are set out from page 17 to 20 in this annual report.

Directors (including non-executive Directors) are elected in general meetings with a term of three years from the date of their elections until the date of election of the next Board.

All Directors shall, upon their initial appointment, report to the Board in respect of the number and nature of any office assumed by them in other companies or institutions and the term of office, as well as disclose to the Company names of such companies or institutions. If the Board considers a Director has a conflicting interest in any proposal under consideration, such Director shall report his/her interests and abstain from voting and may, when necessary, apply for absence. The Board requires Directors to confirm whether there is any connected transaction between the Directors or their respective associates and the Company or its subsidiaries at each financial reporting period. Any material transactions relating to connected parties, which have been confirmed, will be disclosed in notes to the financial statements of an annual report.

2. The Board *(Continued)*

Composition *(Continued)*

The independent non-executive Directors of the Company possess extensive professional expertise and experience, and can fully perform their important function of supervision and balance to protect the interests of the Shareholders and the Company as a whole. There are five independent non-executive Directors, representing over one-third of the Board. In determining the independence of a non-executive Director, the Director is considered independent only after the Board has confirmed that there is no direct or indirect material relationship between the Director and the Company. The Board considers that the independent non-executive Directors are able to make independent judgment effectively and satisfy the guideline on assessing independence set out in Rule 3.13 of the Listing Rules.

The Company has complied with the requirement concerning the appointment of sufficient independent non-executive Directors and that at least one of them should possess appropriate professional qualification or accounting or relevant financial expertise as set out in Rules 3.10(1) and 3.10(2) of the Listing Rules.

The Company has made appropriate arrangement to insure against the possible legal actions that the Directors and senior management may be involved. The Board reviews annually on the insurance arrangement.

The Chairman and the Chief Executive (the President)

The Chairman is responsible for operation and management of the Board while the President takes charge of the day-to-day management of the Company's business. To ensure a balanced distribution of functions and authorisations, the offices and roles of the Chairman and the President are assumed by two individuals separately and explicitly differentiated. Under the assistance of the Vice Chairman, the Chairman leads and oversees the operation of the Board to ensure the performance of the Board is in the best interests of the Company. After Chairman Mr. Xing Daoqin passed away on 6 November 2011 and until formal arrangement has been made, the Vice Chairman Mr. Tao Kui has taken up the role on his behalf (including the implementation of requirements as set out in Code A.2 regarding the chairman).

Under the assistance of the Vice President, the President is responsible for managing the day-to-day affairs of the Company, organising and implementing resolutions of the Board and reporting to the Board on the overall operation of the Company. As the chief manager of the Company's day-to-day affairs, the President assumes the responsibility for the annual business plans, investment schemes and the formation of basic management rules of the Company, and assumes a direct responsibility for the operation performance of the Company.

2. The Board *(Continued)*

The Chairman and the Chief Executive (the President) *(Continued)*

The President and the Vice President make concerted efforts to collaborate with administrative departments of the Company to ensure the Board's and the Board committees can access complete, reliable and proper information so that the Directors can make decisions with adequate data and to ensure proper implementation of the Board's resolutions. The President closely monitors the operation and financial results of the Company based on plans and budgets and makes suggestions to the Board in respect of material events.

Joint Company Secretaries

The Joint Company Secretaries report to the Board. All Directors are entitled to the Joint Company Secretaries' services. They notify the Board the latest information on governance and regulation on a regular basis, assist the Chairman in preparation of the agenda of the Board meetings, and prepare and dispatch meeting documents on a timely and comprehensive basis so as to ensure the efficiency and compliance of the Board meetings. With the assistance of the Company's legal counsels, the Joint Company Secretaries are in charge of arranging the announcement of annual and interim reports and disclosure of information and data in accordance with the Listing Rules and relevant rules of the Company. They make regular enquiries to the Company's financial department for information on connected transactions to secure compliance with the Listing Rules in respect of such transactions.

The Joint Company Secretaries also take charge of preparing and keeping minutes of meetings of the Board and the Board committees together with any relevant documents, which can be provided and open to all Directors and are available to all Directors for their inspection at any reasonable time. All matters under consideration including any enquiry and objection by Directors shall be minuted in details. Within a reasonable timeframe after a meeting, a draft minutes shall be dispatched to all Directors for their comments.

Board meetings

The Chairman is responsible for convening and presiding over the Board meeting. Assisted by the Joint Company Secretaries, the Chairman seeks to ensure all Directors' proper access to accurate, timely and sufficient data in connection with the proposals to be considered by the Board to enable their wise decisions. While a 14 days' notice of a regular Board meeting is given, the agenda of meeting and the meeting documents attached are circulated at least 3 days prior to the holding of a Board meeting or a meeting of any special committee.

The Chairman encourages the Directors to be fully engaged in the Board's affairs and make contributions to the functions of the Board. The Board also adopts sound corporate governance practices and procedures and takes appropriate steps to encourage the Directors' open and candid communications so as to ensure non-executive Directors may raise queries with and maintain effective communications with each executive Director.

2. The Board *(Continued)*

Board meetings *(Continued)*

It is expressly provided in the Terms of Reference and Working Rules for the Board that, in the event that a substantial Shareholder or Director of the Company has a conflict of interest in the matter to be considered at the Board meeting, such matter shall not be dealt with by Board committees or by way of circulation. Any Director who has a conflict of interest in the matters to be considered shall abstain from voting.

Four on-site meetings of the Board were held in the reporting period and six written votes of the Board were carried out. Details of attendance at Board meetings by each of the Directors are as follows:

Directors	**Positions**	**Board Meetings** (Attendances in person/supposed attendances)
Xing Daoqin	Executive Director and Chairman	3/4
Tao Kui	Executive Director and Vice Chairman	4/4
Zhang Junhua	Executive Directors and President	4/4
Guo Mengquan	Non-executive Director	3/4
Niu Xin'an	Non-executive Director	3/4
Fu Jiuquan	Non-executive Director	4/4
Zhang Weichuan	Non-executive Director	4/4
Xu Xinzhong	Independent non-executive Director	3/4
Feng Bing	Independent non-executive Director	4/4
Wang Jialu	Independent non-executive Director	3/4
Lv Hua	Independent non-executive Director	4/4
Zhong Pengrong	Independent non-executive Director	3/4

In accordance with the Articles of Association, Directors, when necessary, may propose to convene an extraordinary Board meeting. They may also, when they consider necessary, obtain the Company's information and independent expert opinion, where expenses incurred are borne by the Company.

Board committees

Four special committees are established under the Board, namely the Nomination Committee, the Audit Committee, the Remuneration Committee and the Strategy Committee. Their terms of reference are determined in accordance with the principles set out in the Code. The Board committees report to the Board. In order to perform their duties, the Board committees have the authority to engage lawyers, accountants or other professionals for professional advice when necessary, the expenses of which are borne by the Company.

2. The Board *(Continued)*

Nomination Committee

During the reporting period, the Nomination Committee was chaired by Mr. Xing daoqin and comprised six other members, namely, Mr. Tao Kui, Mr. Guo Mengquan, Mr. Niu Xinan, Mr. Feng Bing, Mr. Xu Xinzhong and Mr. Wang Jialu. The Nomination Committee provides the Board with its advice on appointment of Directors, assessment of the Board's composition and change of Directors in accordance with certain agreed standards. The relevant standards include a Director's proper professional knowledge and work experience, personal integrity and commitment of adequate time. The Nomination Committee is responsible for the selection and recommendation of director candidates, including consideration of candidates recommendated by others and, when necessary, acquired by using public recruitment.

By reference to the recommendations in provisions A.4 and A.5 of the Code, the Board formulated the Terms of Reference and Organisation Rules for the Nomination Committee.

Mr. Xing Daoqin, the former chairman of the Nomination Committee, passed away on 6 November 2011, resulting in a vacancy of the position of chairman. On 28 March 2012, the Nomination Committee was adjusted to be chaired by Mr. Tao Kui and comprise six other members, namely, Mr. Guo Mengquan, Mr. Niu Xinan, Mr. Feng Bing, Mr. Xu Xinzhong, Mr. Wang Jialu and Mr. Zhong pengrong.

During the reporting period, as there was no matters that need to be submitted to the Nomination Committee for consideration, the Nomination Committee did not convene any meeting.

Audit Committee

The Audit Committee comprises four independent non-executive Directors and one non-executive Director, namely Mr. Lv Hua, Mr. Xu Xinzhong, Mr. Feng Bing, Mr. Zhong Pengrong and Mr. Fu Jiuquan. The Audit Committee is chaired by Mr. Lv Hua, an independent non-executive Director. Mr. Lv has proper qualifications and financial experiences. The Audit Committee assumes the responsibilities of auditing the financial reports of the Company, reviewing internal control and corporate governance and providing advices in respect thereof to the Board.

By reference to the recommendations in A Guide for Effective Audit Committees issued by Hong Kong Institute of Certified Accountants and provision C.3 of the Code, the Board has formulated the Terms of Reference and Organisation Rules for the Audit Committee.

In 2011, the Audit Committee convened two meetings. The senior management and the external auditor were invited to these meetings.

2. The Board *(Continued)*

Audit Committee *(Continued)*

In 2011, the Audit Committee's work includes:

- considering the Company's financial statements and annual results announcement for the year ended 31 December 2010, together with the proposals to be approved by the Board;
- considering the report in relation to the execution of connected transactions for the year ended 31 December 2010, together with the proposals to be approved by the Board;
- considering the report in relation to the expenses of audit fees for the year ended 31 December 2010, together with the proposals to be approved by the Board;
- considering the audit fees and remuneration payable to the external auditor for the year ended 31 December 2010 and the proposal for reappointment of the auditor and submitting such matters to the Board for approval;
- considering the report of financial budget of the Company for 2011 and submitting it to the Board for approval;
- considering the Company's financial statements and interim results announcement for the half year ended 30 June 2011, together with the proposals to be approved by the Board;
- discussing matters in relation to audit, internal control and financial reporting with the management and external auditor of the Company.

Details of attendance of each member of the audit committee of the Company in 2011 are as follows:

Directors	**Meetings of Audit Committee** (Attendances in person/supposed attendances)
Lv Hua	2/2
Fu Jiuquan	2/2
Xu Xinzhong	2/2
Feng Bing	2/2
Zhong Pengrong	1/2

2. The Board *(Continued)*

Remuneration Committee

During the reporting period, the Remuneration Committee was chaired by Mr. Tao Kui and comprised by Mr. Feng Bing, Mr. Wang Jialu and Mr. Lv Hua as members.

By reference to the Recommendations in the B.1 of the Code, the Board has formulated the Terms of Reference and Organisation Rules for the Remuneration Committee.

The Remuneration Committee is responsible for approval of the terms of service contracts and remuneration policies for all Directors and senior management members, including yearly distribution of share appreciation rights pursuant to the Company's share appreciation rights plan. It also assists the Company to formulate fair and transparent remuneration policies for Directors and senior management and determine their remunerations.

During the reporting period, the Remuneration Committee convened one meeting to consider the proposal in relation to the remuneration status of Directors and supervisors of the Company for 2010, and the proposed authorization by the general meetings to the Board to determine the remuneration of Directors and supervisors of the Company for 2011.

Details of attendance of each member of the Remuneration Committee in 2011 are as follows:

Directors	**Meetings of Remuneration Committee** (Attendances in person/supposed attendances)
Tao Kui	1/1
Feng Bing	1/1
Wang Jialu	1/1
Lv Hua	1/1

On 28 March 2012, the Remuneration Committee was adjusted to be chaired by Mr. Wang Jialu and comprises Mr. Guo Mengquan, Mr. Feng Bing and Mr. Lv Hua as members.

Remuneration policy for executive Directors: The remuneration portfolio policy for executive Directors is designed to link executive Directors' remuneration with their performance so as to inspire their better performance and retainment. In accordance with the Articles of Association, Directors may not determine or approve their own remunerations.

2. The Board *(Continued)*

Remuneration Committee *(Continued)*

Five Directors of the Company (including executive Directors and non-executive Directors) are the functionaries who fall within the management of the State-owned Asset Supervision and Administration Commission of the State Council ("SASAC"), and hence are subject to Provisional Management Methods for Remunerations of Persons in Charge of Central Enterprises and Interim Measures for Assessment of the Operational Performance of Persons in Charge of Central Enterprises issued by SASAC in 2004. These five Directors' remunerations consist of basic salary, performance-linked salary and medium and long-term incentive-linked salary. The basic salary is the annual basic income of a functionary, which is comprehensively determined by reference to factors such as the business scale of the enterprise, their responsibilities, and the average salary of local enterprises, of the industry and of the enterprise itself. The performance-basic salary is linked with the operating appraisal results and is based on the basic salary, which is determined by reference to the appraisal grade and scores for the annual operating results of the enterprise representative. 60% of the performance-linked salary is paid in the relevant period whereas the payment of the remaining 40% will be deferred until the expiry of their term of office.

Based on their individual performance and the business performance of the Company, the Remuneration Committee approves the grant of share appreciation rights to the executive Directors pursuant to the share appreciation rights plan as approved by Shareholders.

Remuneration policy for non-executive Directors: Remunerations of non-executive Directors are subject to the approval by Shareholders at general meetings and determined with reference to the complexity of the matters to be handled by them and their duties. Pursuant to the service contracts entered into between the Company and the non-executive Directors, the Company reimburses non-executive Directors for the out-of-pocket expenses incurred in performance of their duties (including attendance at the Company's meetings).

2. The Board *(Continued)*

Remuneration Committee *(Continued)*

A Director's remuneration includes the amount paid by the Company and its subsidiaries for their management of affairs of the Company and its subsidiaries. Remunerations paid to each Director of the Company in 2011 were as follows:

(Unit: RMB'000)

Name	Position	Remuneration and allowance	Directors' fee	Contribution to retirement benefits	Remarks
Xing Daoqin	Chairman	33	—	3	Not receiving remuneration from the Company starting from March 2011
Tao Kui	Vice Chairman of the Board	33	—	3	Not receiving remuneration from the Company starting from March 2011
Zhang Junhua	Executive Directors, President	268	—	3	Not receiving remuneration from the Company starting from March 2011
Guo Mengquan	Non-executive Director	30	—	3	Not receiving remuneration from the Company starting from March 2011
Niu Xin'an	Non-executive Director	—	—	—	not receiving remuneration from the Company
Fu Jiuquan	Non-executive Director	—	—	—	not receiving remuneration from the Company
Zhang Weichuan	Non-executive Director	—	—	—	not receiving remuneration from the Company
Xu Xinzhong	Independent director	—	100	—	
Feng Bing	Independent director	—	100	—	
Wang Jialu	Independent director	—	100	—	
Lv Hua	Independent director	—	100	—	
Zhong Pengrong	Independent director	—	100	—	
Total		364	500	12	

Pursuant to applicable laws and regulations of China, the Company currently participates in a series of pension schemes organized by provincial and municipal governments, pursuant to which all production plants of the Company must contribute to such pension schemes according to certain proportions of the salaries, bonus and various allowance of the employees. As the production plants are located in different regions, the proportion of contributions to the remuneration of employees are also different.

3. Statement of financial responsibility of the Board

The Board is responsible for the preparation of the Company's financial statements and takes the responsibility for the completeness and legitimacy of the financial data as well as the efficiency of the Company's internal control system and risk management process. The President is responsible for the daily management of the operation of the Company. The Board makes periodic reviews on the functions of and the rights authorised to the President.

The Directors acknowledge their responsibilities to prepare financial statements of the Company for each financial year, to report truly and fairly on the financial status of the Group, to comply with applicable accounting standards and adopt appropriate accounting policies in the preparation of the financial statements and to disclose the financial status of the Company accurately.

For auditor's reporting responsibilities, please refer to the auditor's report.

4. Securities transactions by Directors

The Board has adopted the Model Code as the code of conduct regarding securities transactions by Directors of the Company. The Model Code is also applicable to selected employees who may possess certain price sensitive information that has been not disclosed, including such employees in the Company's subsidiaries and parent company. Upon appointment, each Director of the Company would receive a copy of the Model Code. After that, the Model Code is delivered twice a year, namely, one month prior to the Board meeting to approve the Company's interim results and two months prior to the Board meeting to approve the Company's annual results, together with an indicative notice to remind the Directors that they may not deal in the Company's shares until the publication of the results announcement.

All Directors of the Company confirm that as at 31 December 2011, all Directors and the selected employees who may possess certain price sensitive information that has not been disclosed complied with the Model Code and none of the said persons has interests or short positions which are required to be notified to the Company and the Stock Exchange, or incurs any conduct in violation of any regulation.

5. Control mechanism

Internal control and internal audit

Internal control system

The Board is fully in charge of the Company's internal control system, including its overall financial and operational status, hence avoiding material financial omission or loss and any omission or risk in relation to operation controls. Through its Audit Committee, the Board makes periodic review on the effectiveness of the internal control system of the Group, which includes controls over finance, operations, regulation compliance and risk management. Relevant results of 2011 have been reported to the Board through the Audit Committee.

The Board confirms that the Company has set up procedures and systems for efficient recognition, assessment and management of material operating risks. The Company has complied with the code provisions relating to internal controls as set out in the Code on Corporate Governance Practices for the year ended 31 December 2011.

Internal audit

The Company has set up an internal audit department, which oversees the internal controls, ensures the achievement of the corporate goals and conducts independent reviews.

The internal audit department gives its prudent opinion as to whether the Company's operations have a comprehensive and efficient risk management system and reports to the Audit Committee of the Company accordingly. In 2011, all internal audit reports and opinions were submitted to the President and other executive Directors of the Company as well as the senior management of the audit department. The audit department also follows up on issues identified during the audit process and conducts follow-up audit to ensure that such issues have been satisfactorily resolved. In addition, a regular dialogue is maintained between the audit department and the external auditor so that both are aware of the significant factors that may affect their respective scope of work.

5. Control mechanism *(Continued)*

Internal control and internal audit *(Continued)*

Risk management

The Board properly implements operation risk management procedures across the whole Company and formulates policies and procedures which provide a framework for identification and management of risks.

The Board fulfils its oversight role over the Company and its subsidiaries in the following areas:

- establishment the risk management system of the Company and identification of the risk portfolio of the Company;
- identification, assessment and management of the material risks faced by various units of the Company;
- review and assessment of the appropriateness of the Company's risk management process, system and internal control;
- review and monitoring the execution of the Company's risk management process, system and internal control including compliance with requirements of prudence and legality while conducting businesses.

The Board is fully in charge of overseeing the operations of the Company's business units. Personnel with proper experience and skills are appointed to the board of directors of the Company's subsidiaries and associated companies to attend their board meetings and to oversee the operations of those companies. Monitoring activities include review and approval of business strategies, budgets and plans as well as setting up key business performance targets. The identification, evaluation and report on the likelihood and potential financial impact of material business risks are issues left to the management personnels of such companies.

External auditor and their remunerations

As approved in the annual general meeting held on 27 May 2011, the Board has continued to appoint SHINEWING (HK) CPA Limited as the auditor of the Company. The audit committee reviewed the letter from SHINEWING (HK) CPA Limited to confirm its independence and objectiveness, held meetings with the external auditor to discuss its audit scope and fees, and approved scope and fees for any non-audit service to be provided by the firm as required.

For the year ended 31 December 2011, the remuneration of the external auditor amounted to RMB3,100,000, all of which was for audit service. No non-audit service fee was incurred for the year of 2011. The audit fee has been approved by the audit committee of the Company and the Board.

Interests of Shareholders and investor relations

General meetings

The Company encourages Shareholders' attendance at annual general meetings and gives at least a 45-day advance notice of such meetings. The Chairman should and Directors may attend the meetings to answer questions about the Company's businesses. All Shareholders have rights to request the convening of an extraordinary general meeting and put forward proposals for Shareholders' consideration in accordance with the Articles of Association. At the annual general meeting, each matter is put forward in the form of a separate proposal and voted by way of poll based on the number of shares. Voting results of the general meeting are released in the form of announcements and relevant details of the meeting are set out on the respective websites of the Stock Exchange and the Company.

On 27 May 2011, the 2010 annual general meeting of the Company was held at the conference room of the office building of the Company in Xianyang, Shaanxi Province.

On 2 September 2011, the 2011 extraordinary general meeting, the H Share Shareholders class meeting and the domestic Share Shareholders class meeting were held at the conference room of the office building of the Company in Xianyang, Shaanxi Province.

Details of the above general meetings are set out on the respective websites of the Stock Exchange and the Company.

The Joint Company Secretaries are responsible for day-to-day communications between the Board and substantial Shareholders. Investors and the public may also access the Company's website for detailed data of the Company's businesses. The Company's interim and annual results announcements can also be downloaded from the Company's website.

According to the information available to the Company and as far as the Directors are aware, at least 25% of the Company's total issued share capital has been held by public Shareholders.

Interests of Shareholders and investor relations *(Continued)*

Information disclosure and investor relations

The Company undertakes that it shall make impartial disclosure and provide full and transparent report. The ultimate duty of the Chairman is to ensure efficient communications with investors and to ensure the Board's understanding of the opinions of substantial Shareholders. After the Company's announcement of its interim and annual results, the Board is committed to provide Shareholders with clear and comprehensive results of the Group by publishing interim and annual reports. The Company endeavours to maintain a continuos candid communication with investors and analysts, so as to deepen their understanding of the Group's management, financial condition, operation, strategies and plans. In addition, the Company arranges reverse road shows for analysts and investors from time to time, to foster intercommunication and understanding between investors and the management of the Company. Field visits to inspect plants and business premises of the Company by analysts and investors are welcomed.

The Company is committed to increase transparency and improve investor relations and has attached great importance to Shareholders' responses in this regard. For any inquiry and advice, Shareholders can contact the Joint Company Secretaries through the hotline at (8629) 3333 3858 or by email chdz@ch.com.cn, or raise the questions directly at the annual general meeting or the extraordinary general meeting.

By order of the Board
Chu Xiaohang Lam Chun Lung
Joint Company Secretaries

Xianyang, the People's Republic of China
28 March 2012

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF
IRICO GROUP ELECTRONICS COMPANY LIMITED
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 169, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak

Practising Certificate Number: P04798

Hong Kong
28 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2011

	NOTES	**2011 RMB'000**	2010 RMB'000
Turnover	7	**3,270,348**	2,717,770
Cost of sales		**(3,164,459)**	(2,311,974)
Gross profit		**105,889**	405,796
Other operating income	9	**196,875**	98,068
Selling and distribution costs		**(86,412)**	(107,415)
Administrative expenses		**(325,703)**	(244,762)
Other operating expenses		**(6,776)**	(18,592)
Finance costs	10	**(79,736)**	(64,530)
Impairment loss recognised in respect of property, plant and equipment	17	**(416,544)**	(350)
Share of loss of associates	22	**(43,038)**	(24,233)
(Loss) profit before tax		**(655,445)**	43,982
Income tax expense	11	**(27,523)**	(5,277)
(Loss) profit for the year	12	**(682,968)**	38,705
(Loss) profit for the year attributable to:			
Owners of the Company		**(253,038)**	29,075
Non-controlling interests		**(429,930)**	9,630
		(682,968)	38,705
Other comprehensive (expense) income			
Exchange differences arising on translation		**237**	2,520
Share of exchange reserve of an associate		**(3,667)**	911
Other comprehensive (expense) income for the year		**(3,430)**	3,431
Total comprehensive (expense) income for the year		**(686,398)**	42,136
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(256,468)**	32,506
Non-controlling interests		**(429,930)**	9,630
		(686,398)	42,136
		RMB	*RMB*
(Loss) earnings per share (basic and diluted)	16	**(0.1134)**	0.0136

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	NOTES	**2011 RMB'000**	2010 RMB'000
Non-current assets			
Property, plant and equipment	17	**8,202,921**	5,830,486
Investment properties	18	**55,272**	50,170
Leasehold land and land use rights	19	**324,664**	151,533
Intangible assets	20	**870**	1,631
Interests in associates	22	**278,394**	327,044
Available-for-sale investment	23	**24,060**	24,060
Deposits paid for acquisition of property, plant and equipment		**196,001**	93,510
Deposit paid for acquisition of an associate		**73,500**	—
		9,155,682	6,478,434
Current assets			
Inventories	24	**402,839**	609,019
Trade and bills receivables	25	**545,034**	477,457
Other receivables, deposits and prepayments	26	**1,030,783**	531,764
Restricted bank balances	27	**104,716**	49,418
Bank balances and cash	28	**2,080,334**	2,698,430
		4,163,706	4,366,088
Current liabilities			
Trade and bills payables	29	**819,765**	711,943
Other payables and accruals	30	**1,065,524**	429,856
Tax payables		**3,733**	3,773
Bank and other borrowings – due within one year	31	**1,568,601**	1,173,272
Termination benefits	32	**3,112**	3,247
Obligations under finance leases	33	**60,717**	—
		3,521,452	2,322,091
Net current assets		**642,254**	2,043,997
Total assets less current liabilities		**9,797,936**	8,522,431

	NOTES	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital	34	**2,232,349**	2,232,349
Other reserves	35	**1,329,286**	1,332,716
Accumulated losses		**(1,703,828)**	(1,450,790)
Equity attributable to owners of the Company		**1,857,807**	2,114,275
Non-controlling interests		**3,194,371**	3,623,424
Total equity		**5,052,178**	5,737,699
Non-current liabilities			
Bank and other borrowings – due after one year	31	**4,208,632**	2,446,768
Deferred income	36	**421,693**	323,230
Termination benefits	32	**7,567**	7,177
Obligations under finance leases	33	**99,526**	—
Deferred tax liabilities	37	**8,340**	7,557
		4,745,758	2,784,732
		9,797,936	8,522,431

The consolidated financial statements on pages 56 to 169 were approved and authorised for issue by the board of directors on 28 March 2012 and are signed on its behalf by:

Tao Kui	**Zhang Junhua**
Vice Chairman	*Director*

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	17	**611,928**	517,383
Intangible assets	20	**239**	532
Investments in subsidiaries	21	**1,458,298**	1,401,813
Investment in an associate	22	**360,000**	357,216
Deposits paid for acquisition of property, plant and equipment		**36,162**	—
Deposit paid for acquisition of an associate		**73,500**	—
		2,540,127	2,276,944
Current assets			
Inventories	24	**124,363**	262,391
Trade and bills receivables	25	**162,650**	129,799
Other receivables, deposits and prepayments	26	**230,926**	165,472
Restricted bank balances	27	**3,440**	6,000
Bank balances and cash	28	**222,755**	244,110
		744,134	807,772
Current liabilities			
Trade and bills payables	29	**554,949**	479,897
Other payables and accruals	30	**366,222**	402,807
Bank and other borrowings – due within one year	31	**530,000**	425,272
Termination benefits	32	**1,259**	1,445
Obligations under finance leases	33	**60,717**	—
		1,513,147	1,309,421
Net current liabilities		**(769,013)**	(501,649)
Total assets less current liabilities		**1,771,114**	1,775,295

STATEMENT OF FINANCIAL POSITION *(Continued)*

AS AT 31 DECEMBER 2011

	NOTES	**2011** **RMB'000**	2010 RMB'000
Capital and reserves			
Share capital	34	**2,232,349**	2,232,349
Other reserves	35	**797,511**	797,511
Accumulated losses		**(1,819,963)**	(1,639,977)
Total equity		**1,209,897**	1,389,883
Non-current liabilities			
Bank and other borrowings – due after one year	31	**450,000**	380,000
Deferred income	36	**6,797**	400
Termination benefits	32	**292**	410
Obligations under finance leases	33	**99,526**	—
Deferred tax liabilities	37	**4,602**	4,602
		561,217	385,412
		1,771,114	1,775,295

Tao Kui
Vice Chairman

Zhang Junhua
Director

	Attributable to owners of the Company					
	Share capital *RMB'000*	**Other reserves** *RMB'000* *(Note 35)*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2010	1,941,174	730,061	(1,479,865)	1,191,370	709,824	1,901,194
Profit for the year	—	—	29,075	29,075	9,630	38,705
Other comprehensive income for the year	—	3,431	—	3,431	—	3,431
Total comprehensive income for the year	—	3,431	29,075	32,506	9,630	42,136
Issue of shares						
— by capitalisation of capital reserve *(Note 34 (i))*	194,117	(194,117)	—	—	—	—
— upon placing *(Note 34 (ii))*	97,058	25,235	—	122,293	—	122,293
Transaction costs attributable to issue of shares upon placing	—	(19,760)	—	(19,760)	—	(19,760)
Partial disposal of equity interests in a subsidiary *(Note 21 (v))*	—	59,605	—	59,605	76,759	136,364
Capital contribution from non-controlling interests of subsidiaries	—	—	—	—	89,600	89,600
Deemed partial disposal of a subsidiary *(Note 21 (iv))*	—	739,569	—	739, 569	2,758,301	3,497,870
Acquisition of additional equity interests in subsidiaries *(Note 21 (iii) and (vii))*	—	8,916	—	8,916	(35,838)	(26,922)
Deemed acquisition of equity interests in subsidiaries *(Note 21 (vi))*	—	(20,224)	—	(20,224)	20,224	—
Dividend paid to non-controlling interests of subsidiaries	—	—	—	—	(5,076)	(5,076)
At 31 December 2010	2,232,349	1,332,716	(1,450,790)	2,114,275	3,623,424	5,737,699

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

YEAR ENDED 31 DECEMBER 2011

	Attributable to owners of the Company					
	Share capital *RMB'000*	**Other reserves** *RMB'000* *(Note 35)*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2011	**2,232,349**	**1,332,716**	**(1,450,790)**	**2,114,275**	**3,623,424**	**5,737,699**
Loss for the year	**—**	**—**	**(253,038)**	**(253,038)**	**(429,930)**	**(682,968)**
Other comprehensive expenses for the year	**—**	**(3,430)**	**—**	**(3,430)**	**—**	**(3,430)**
Total comprehensive expenses for the year	**—**	**(3,430)**	**(253,038)**	**(256,468)**	**(429,930)**	**(686,398)**
Capital contribution from non-controlling interests of subsidiaries	**—**	**—**	**—**	**—**	**29,053**	**29,053**
Release on disposal of a subsidiary *(Note 38)*	**—**	**—**	**—**	**—**	**(3,450)**	**(3,450)**
Dividend paid to non-controlling interests of subsidiaries	**—**	**—**	**—**	**—**	**(24,726)**	**(24,726)**
At 31 December 2011	**2,232,349**	**1,329,286**	**(1,703,828)**	**1,857,807**	**3,194,371**	**5,052,178**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2011

	2011 **RMB'000**	2010 RMB'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(655,445)**	43,982
Adjustments for:		
Allowance for doubtful debts of trade and other receivables	**9,336**	17,633
Allowance for inventories	**156,628**	17,784
Amortisation of deferred income on government grants received	**(8,743)**	(9,726)
Amortisation of leasehold land and land use rights and intangible assets	**5,238**	5,587
Cash-settled share-based payments expense	**656**	11,463
Depreciation for property, plant and equipment and investment properties	**94,907**	56,082
Dividend income from available-for-sale investment	**(2,175)**	(1,863)
Finance costs	**79,736**	64,530
Gain on disposal of leasehold land and land use rights	**—**	(2,120)
Gain on disposal of property, plant and equipment	**(55,852)**	(11,296)
Gain on disposal of a subsidiary	**(12,871)**	—
Gain on disposal of an associate	**(3,235)**	—
Impairment loss recognised in respect of property, plant and equipment	**416,544**	350
Interest income	**(14,140)**	(3,117)
Provision of warranty	**9,515**	3,639
Reversal of allowance for doubtful debts of trade and other receivables	**(988)**	(49,644)
Share of loss of associates	**43,038**	24,233
Reversal of allowance for inventories	**(25,210)**	(128,895)
Operating cash flows before movements in working capital	**36,939**	38,622
Decrease (increase) in inventories	**70,431**	(11,565)
(Increase) decrease in trade and bills receivables, other receivables, deposits and prepayments	**(613,068)**	138,788
Increase (decrease) in trade and bills payables, other payables and accruals	**750,299**	(84,206)
Increase (decrease) in termination benefits	**255**	(639)
Increase in deferred income	**107,206**	228,155
Cash generated from operations	**352,062**	309,155
Income tax paid	**(24,988)**	(4,111)
NET CASH FROM OPERATING ACTIVITIES	**327,074**	305,044

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

YEAR ENDED 31 DECEMBER 2011

	NOTES	**2011 RMB'000**	2010 RMB'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(2,828,837)**	(4,258,301)
Deposits paid for acquisition of property, plant and equipment		**(196,001)**	(1,084)
Purchases of leasehold land and land use rights		**(179,129)**	(66)
Placement of restricted bank balances		**(171,753)**	(49,418)
Deposit paid for acquisition of an associate		**(73,500)**	—
Proceeds from disposal of property, plant and equipment		**266,356**	119,703
Withdrawal of restricted bank balances		**116,455**	—
Proceeds from disposal of a subsidiary	38	**35,032**	—
Interest received		**14,140**	3,117
Proceeds from disposal of an associate		**4,860**	—
Dividend income received from available-for-sale investment		**2,175**	1,863
Dividend income from an associate		**320**	—
Acquisition of additional equity interests in subsidiaries		**—**	(26,922)
Purchases of intangible assets		**—**	(1,559)
Proceeds from partial disposal of equity interests in subsidiaries	21(v)	**—**	136,364
Proceeds from disposal of land use rights		**—**	5,632
NET CASH USED IN INVESTING ACTIVITIES		**(3,009,882)**	(4,070,671)
FINANCING ACTIVITIES			
Bank borrowings raised		**3,812,915**	2,386,538
Proceeds of sale and leaseback transactions		**195,000**	—
Capital contribution from non-controlling interests of subsidiaries		**29,053**	3,587,470
Repayments of bank and other borrowings		**(1,655,646)**	(581,949)
Interest expense paid		**(256,209)**	(105,640)
Repayments of obligations under finance leases		**(35,836)**	—
Dividend paid to non-controlling interests of subsidiaries		**(24,726)**	(5,076)
Proceeds from issue of shares upon placing		**—**	122,293
Expenses on issue of shares upon placing		**—**	(19,760)
NET CASH FROM FINANCING ACTIVITIES		**2,064,551**	5,383,876
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(618,257)**	1,618,249
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**2,698,430**	1,077,661
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**161**	2,520
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		**2,080,334**	2,698,430

1. GENERAL

IRICO Group Electronics Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 10 September 2004 as a joint stock company with limited liability under the Company Law of the PRC. The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2004. The addresses of its registered office and principal place of business are No.1 Caihong Road, Xianyang, Shaanxi Province, the PRC.

The Company and its subsidiaries (collectively referred to as the "Group") are engaged in the manufacturing and trading of colour picture tubes ("CPTs"), luminous materials, thin film transistor liquid crystal display ("TFT-LCD") glass substrate and display devices and color photovoltaic glass, advanced glass, and trading of liquid crystal related products. The principal activities of its subsidiaries are set out in Note 21.

The directors of the Company consider that IRICO Group Corporation, a state-owned enterprise established in the PRC, is the Company's parent company and ultimate holding company.

The consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Application of new and revised standards and interpretations

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendments to HKFRS 1	Limited Exception from Comparative HKFRS 7 Disclosure for First-time Adopters
Amendments to HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) — Interpretation ("Int") 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the statement of changes in equity. Such adoption had no impact to the disclosures in these consolidated financial statements.

HKAS 24 Related Party Disclosure (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the followings two aspects:

(a) HKAS 24 (as revised in 2009) has changed the definition of a related party. The application of the revised definition of related party set out in HKAS 24 (as revised in 2009) has no significant impact to the disclosures in the consolidated financial statements.

(b) In addition, HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. The Group are government-related entities as defined in HKAS 24 (as revised in 2009). Under HKAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitments) with (a) the PRC government that ultimately has control over the Group and (b) other entities that are controlled, jointly controlled, or significantly influenced by the PRC government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Group to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no impact on the Group's financial performance and positions for the current and prior years. However, the related party disclosures set out in Note 41 to the consolidated financial statements have been changed to reflect the application of HKAS 24 (as revised in 2009).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The Group has not early applied the following new or revised standards that have been issued but are not yet effective:

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 7	Disclosures — Transfer of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[4]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 9	Financial Insturments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangement[4]
HKFRS 12	Disclosures of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associate and Joint Ventures[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1 July 2011.

2 Effective for annual periods beginning on or after 1 January 2012.

3 Effective for annual periods beginning on or after 1 July 2012.

4 Effective for annual periods beginning on or after 1 January 2013.

5 Effective for annual periods beginning on or after 1 January 2014.

6 Effective for annual periods beginning on or after 1 January 2015.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRS 7 Disclosures — Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014 with retrospective application required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Changes in credit risk of financial liabilities designated as at fair value through profit or loss are disclosed in Note 6.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised standards on consolidation and disclosures

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation — Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The directors of the Company are assessing the impact of the HKFRS 10 and are not in the position to comment on the impact to the consolidated financial statements.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries and associates. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

In the Company's statement of financial position, investments in subsidiaries are stated at cost less accumulated impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments in associates. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Where a group entity transacts with an associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the interests in associates that are not related to the Group.

In the Company's statement of financial position, investment in an associate is stated at cost less accumulated impairment loss. The result of the associate is accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the carrying amount of that item is recognised as the cost at the date of transfer.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are properties held to earn rental and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease included both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "leasehold land and land use rights" in the consolidated and the Company's statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve (attributed to non-controlling interest as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenues over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Pension and housing obligations

The full time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. These government-sponsored pension plans are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Voluntary payments made to certain former employees and which were not made pursuant to a formal or informal plan are expensed as paid.

Full time employees are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: (1) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (2) providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Early retirement benefits

Employee early retirement benefits are recognised in the period in which the Group enters into an agreement with the employee specifying the terms of early retirement or after the individual employee has been advised of the specific terms. The specific terms vary among the early retired employees depending on various factors including position and length of services. Early retirement benefits falling due more than twelve months after the reporting date are discounted to present value.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extend that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period with the effective of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale investment. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, restricted bank balances and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment losses on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale investment

Available-for-sale investment is non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment losses on financial assets below).

Impairment losses on financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and bills receivables and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, and an increase in the number of delayed payments in the portfolio past the average credit period of 90 days.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment losses on financial assets (Continued)

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and bills receivable or other receivable, is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss ("FVTPL") when the financial liabilities designated at FVTPL on initial recognition.

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities at fair value through profit or loss (Continued)

- it form part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, bank and other borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial asset when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Warranty

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Share-based payment transactions

Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At the end of the reporting period, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in profit or loss.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The followings are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying the entity's accounting policies *(Continued)*

De facto control over subsidiaries

The Group's management exercises its critical judgement when determining whether the Group has de facto control over an entity by evaluating, among other things: (i) the amount of additional interests in the subsidiaries required to be acquired by the Group so as to obtain the legal rights to govern financial and operating policies; (ii) the ability to demonstrate effective control during the shareholders' meetings and board meetings; (iii) the extent of reliance of the subsidiaries on the financial and operational support from the Group; and (iv) the extent of involvement of directors of the subsidiaries nominated by the Group in its operational and financial policy setting and decision making.

The results, assets and liabilities of the subsidiaries are therefore consolidated into the Group's financial statements.

Going concern basis

Although the Company had net current liabilities at the end of the reporting period, the Company manages its liquidity risk by monitoring its current and expected liquidity requirements regularly and ensuring sufficient liquid cash to meet the Company' s liquidity requirements in the short term. The Company may management the cash flows of subsidiaries or arranges external financing to provide sufficient liquidity of the Company. Details of liquidity risk are disclosed in Note 6.

Contingent liabilities in respect of litigation claims

The Group has been engaged in a number of legal claims. Contingent liabilities arising from these legal claims have been assessed by management with reference to legal advice. The directors of the Company considered that no provision for the contingent liabilities in respect of the litigation is necessary after due consideration of each case and with reference to legal opinion.

Ownership of the buildings

Despite the Group has paid the full purchase consideration as detailed in Note 17, certain of the Group's rights to the use of the buildings were not granted formal titles from the relevant government authorities. Despite the fact that the Group has not obtained the relevant legal titles, the directors of the Company determine to recognise the buildings that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling the buildings.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Income tax expense

Determining income tax provisions involves estimation on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

Allowance for inventories

The directors of the Company reviews the ageing analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items. The directors of the Company estimates the net realisable value for raw materials and finished goods based primarily on the latest invoice prices and current market conditions. The directors of the Company carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. During the year ended 31 December 2011, the Group recognised an impairment loss of approximately RMB156,628,000 (2010: RMB17,784,000) in respect of raw materials and finished goods to write-down the inventories to their net realisable values.

Impairment of property, plant and equipment, investment properties, leasehold land and land use rights

The Group tests at the reporting date whether property, plant and equipment, investment properties, leasehold land and land use rights have suffered any impairment in accordance with accounting policies stated in Note 3. The recoverable amounts of those assets have been determined based on the higher of their fair value less costs to sell and their value-in-use calculations which prepared on the basis of management's assumptions and estimates taking into account the existing business expansion plan going forward, the current sales orders on hand and other strategic new business development. These calculations require the use of estimates such as the future revenue and discount rates.

During the year ended 31 December 2011, the Group recognised an impairment loss of approximately RMB416,544,000 (2010: RMB350,000) in respect of property, plant and equipment (Note 17). No impairment loss has been recognised in respect of investment properties, leasehold land and land use rights for the two years ended 31 December 2011 and 2010.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment of property, plant and equipment, investment properties, leasehold land and land use rights (Continued)

During the year ended 31 December 2011, the Company recognised an impairment loss of approximately RMB17,111,000 (2010: nil) in respect of property, plant and equipment (Note 17). No impairment loss has been recognised in respect of leasehold land and land use rights for the two years ended 31 December 2011 and 2010.

Depreciation of property, plant and equipment and investment properties

Property, plant and equipment and investment properties are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and investment properties and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment of available-for-sale investment

The Group follows the guidance of HKAS 39 to determine when an available-for-sale investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the recoverable amount of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in the recoverable amount below cost were considered significant or prolonged, the Group would suffer an additional loss in the consolidated statement of comprehensive income for the year ended 31 December 2011. As at 31 December 2011 and 2010, the carrying amount of available-for-sale investment was approximately RMB24,060,000, net of accumulated impairment loss of approximately RMB5,940,000.

Impairment of interests in associates

Determining whether the interests in associates are impaired requires an estimation of the future cash flows expected to arise and the expected dividend yield from the associates in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2011, the carrying amounts of Group's interests in associates and the Company's investment in an associate are approximately RMB278,394,000 (2010: RMB327,044,000) and RMB360,000,000 (2010: RMB357,216,000) respectively, with impairment loss of nil (2010: RMB2,784,000) and nil (2010: RMB2,784,000) respectively.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Allowance for doubtful debts

The directors of the Company regularly review the recoverability and age of the trade receivables and other receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired.

In determining whether allowance for doubtful debts is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2011, the Group's carrying amount of trade and bills receivables is approximately RMB545,034,000 (2010: RMB477,457,000), net of allowance for doubtful debts of approximately RMB24,680,000 (2010: RMB16,758,000). The Group's carrying amount of other receivables is approximately RMB1,030,783,000 (2010: RMB531,764,000), net of allowance for doubtful debts of approximately RMB3,116,000 (2010: RMB2,690,000).

As at 31 December 2011, the Company's carrying amount of trade and bills receivables is approximately RMB162,650,000 (2010: RMB129,799,000), net of allowance for doubtful debts of approximately RM21,724,000 (2010: RMB18,208,000). The Company's carrying amount of other receivables is approximately RMB230,926,000 (2010: RMB165,472,000), net of allowance for doubtful debts of approximately RMB5,662,000 (2010: RMB662,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Provision for warranty

The provision for warranty was made for warranties granted to the CPTs tubes customers for the free-of-charge materials and workmanship of particular removal devices and accessories, up to a period of three years from the date of installation.

Provision for warranty was made on an accrual basis by reference to the directors' best estimates of the expenditure required to settle the obligations, and was charged to the consolidated statement of comprehensive income in the period in which the related sales are made. The level of provision required was assessed by the directors of the Company annually based on the Group's past experience of warranty. As at 31 December 2011, the carrying amount of provision for warranty for the Group and the Company are approximately RMB2,875,000 (2010: RMB2,714,000) and RMB869,000 (2010: nil) respectively.

Liabilities for cash-settled share-based payments

The fair value is expensed over the period until vesting with recognition of a corresponding liability. The cost of cash-settled transactions is measured initially at fair value at the grant date using the Binomial model, taking into account the terms and conditions upon which the instruments were granted. The option pricing models require the input of subjective assumptions, including the volatility of its own ordinary shares and the expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options. The liability is measured at the end of each reporting period up to and including the settlement date with changes in fair value and recognised in the consolidated statement of comprehensive income.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank and other borrowings and obligations under finance leases as disclosed in Note 31 and Note 33 respectively, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, other reserves and accumulated losses.

5. CAPITAL RISK MANAGEMENT *(Continued)*

The directors of the Company reviews the capital structure on a regular basis and monitors on the basis of the gearing ratio. As part of this review, the Group considers the cost of capital and the risks associated with each class of capital. Gearing ratio is calculated as the proportion of total debt to total capital.

The Group aimed at maintaining a gearing ratio of not more than 60% (2010: 50%). Based on the recommendations of the Company's directors, the Group intends to maintain a suitable ratio of share capital to liabilities, so as to maintain an effective capital structure from time to time.

The gearing ratio at the end of the reporting period was as follows:

	2011 ***RMB'000***	2010 *RMB'000*
Total debt *(a)*	**5,937,476**	3,620,040
Net debt *(b)*	**3,857,142**	921,610
Total equity	**5,052,178**	5,737,699
Total capital (based on total debt) *(c)*	**10,989,654**	9,357,739
Net capital (based on net debt) *(d)*	**8,909,320**	6,659,309
Gearing ratio (based on total debt and total capital) *(%)*	**54.0**	38.7
Gearing ratio (based on net debt and net capital) *(%)*	**43.3**	13.8

(a) Total debt equals to bank and other borrowings and obligations under finance leases.

(b) Net debt equals to total debt less bank balances and cash.

(c) Total capital (based on total debt) equals to total debt plus total equity.

(d) Net capital (based on net debt) equals to net debt plus total equity.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)				
Trade and bills receivables	**545,034**	477,457	**162,650**	129,799
Other receivables	**189,439**	101,752	**199,645**	135,356
Restricted bank balances	**104,716**	49,418	**3,440**	6,000
Bank balances and cash	**2,080,334**	2,698,430	**222,755**	244,110
	2,919,523	3,327,057	**588,490**	515,265
Available-for-sale investment	**24,060**	24,060	**—**	—
Financial liabilities				
Other financial liabilities measured at amortised cost				
Trade and bills payables	**819,765**	711,943	**554,949**	479,897
Other payables and accruals	**1,055,449**	419,021	**358,153**	394,686
Bank and other borrowings	**5,777,233**	3,620,040	**980,000**	805,272
Obligations under finance leases	**160,243**	—	**160,243**	—
	7,812,690	4,751,004	**2,053,345**	1,679,855
Financial liabilities at FVTPL	**7,200**	8,121	**7,200**	8,121

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's and the Company's major financial instruments include available-for-sale investment, trade and bills receivables and other receivables, restricted bank balances, bank balances and cash, trade and bills payables, other payables and accruals, bank and other borrowings, obligations under finance leases and liabilities for cash-settled share-based payments. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group and the Company mainly operates in the PRC. Majority of its revenue and operating costs and cost of sales are denominated in RMB. Certain trade receivables, bank balances and cash, and bank and other borrowings of the Group and the Company are denominated in the United States dollars ("USD"). Such USD denominated trade and bills receivables, bank balances and cash, and bank and other borrowings are exposed to fluctuations in the value of RMB against USD in which these trade and bills receivables, bank balances and cash, and bank and other borrowings are denominated. Any significant appreciation / depreciation of the RMB against the USD may result in significant exchange gain / loss which would be recorded in the consolidated statement of comprehensive income.

At the end of the reporting period, included in the trade receivables, bank balances and cash, and bank and other borrowings are the following amount denominated in USD which is other than the functional currency of the relevant group entities to which it relates.

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**87,456**	52,219	**33,233**	17,121
Bank balances and cash	**53,276**	74,692	**42,163**	12,458
Bank and other borrowings	**(475,225)**	(495,378)	**—**	—
	(334,493)	(368,467)	**75,396**	29,579

The Group currently does not have foreign currency hedging policy. However, management monitors currency risk and will consider hedging significant currency risk exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis

The following details the Group's sensitivity to a 10% (2010: 10%) increase and decrease in RMB against the relevant foreign currencies. 10% (2010: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

As of 31 December 2011, if RMB had strengthened / weakened 10% (2010: 10%) against USD, with all other variables held constant, the Group's loss for the year would have been approximately RMB25,087,000 lower / higher (2010: profit after tax would have been RMB27,635,000 higher / lower), mainly as a result of foreign exchange gains / losses on translation of the USD denominated trade and bills receivables, bank balances and cash, and bank and other borrowings.

As of 31 December 2011, if RMB had strengthened / weakened 10% (2010: 10%) against USD, with all other variables held constant, the Company's loss for the year would have been approximately RMB5,655,000 higher / lower (2010: profit after tax would have been RMB2,218,000 lower / higher), mainly as a result of foreign exchange losses/gains on translation of the USD denominated trade and bills receivables and bank balances and cash.

Interest rate risk

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate restricted bank balances (Note 27), fixed-rate bank borrowings (Note 31) and fixed-rate obligations under finance leases (Note 33). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group and the Company are also exposed to cash flow interest rate risk in relation to bank balances, bank and other borrowings (see Notes 28 and 31 respectively for details). It is the Group's policy to keep its bank and other borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's and the Company's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's and the Company's cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate and the basic borrowing rate announced by the People's Bank of China arising from the Group's variable-rate bank and other borrowings.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point (2010: 100 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis point (2010: 100 basis point) higher / lower and all other variables were held constant, the Group's and the Company's loss for the year would increase / decrease by approximately RMB27,106,000 (2010: profit after tax would decrease / increase by RMB328,000) and increase / decrease by approximately RMB2,850,000 (2010: nil) respectively. This is mainly attributable to the Group's and Company's exposure to interest rates on its variable-rate bank and other borrowings.

Credit risk

As at 31 December 2011, the Group and the Company's maximum exposures to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the statement of financial position respectively.

The credit risk on bank balances is limited because the restricted bank balances and bank balances are maintained with state-owned banks or other creditworthy financial institutions in the PRC and Hong Kong.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for approximately 71% (2010: 57%) of the total trade and bills receivables as at 31 December 2011.

The Company's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for approximately 79% (2010: 91%) of the total trade and bills receivables as at 31 December 2011.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

For the year ended 31 December 2011, the Group has concentration of credit risk as only 14% (2010: 6%) and 42% (2010: 13%) of the total trade and bills receivables was due from the Group's largest customer and the five largest customers respectively. Sales to the largest customer and aggregate sales to the five largest customers represents 7% (2010: 10%) and 23% (2010: 23%) of total turnover respectively.

The Company has concentration of credit risk as 16% (2010: 9%) and 22% (2010: 58%) of the total trade and bills receivables was due from the Company's largest customer and the five largest customers respectively. Sales to the largest customer and aggregate sales to the five largest customers represents 13% (2010: 32%) and 45% (2010: 55%) of total turnover respectively.

The Group and the Company have policies in place to ensure that sale of products are made to customers with an appropriate credit history. The Group and the Company also perform periodic credit evaluations of its customers and believes that adequate impairment loss of trade and other receivables have been made in the consolidated financial statements.

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group and the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The Company is exposed to liquidity risk as at 31 December 2011 as the Company had net current liabilities of approximately RMB769,013,000 (2010: RMB501,649,000). The directors of the Company are of the opinion that the Company will have sufficient working capital to meet its financial obligations.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, senior management aims to maintain flexibility in funding by keeping committed credit lines available.

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

The Group

	On demand or within 1 year *RMB'000*	1-5 years *RMB'000*	Over 5 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount at 31/12/2011 *RMB'000*
2011					
Trade and bills payables	**819,765**	**—**	**—**	**819,765**	**819,765**
Other payables	**1,055,449**	**—**	**—**	**1,055,449**	**1,055,449**
Bank and other borrowings	**1,577,652**	**3,289,571**	**2,026,146**	**6,893,369**	**5,777,233**
Obligations under finance leases	**71,672**	**107,703**	**—**	**179,375**	**160,243**
	3,524,538	**3,397,274**	**2,026,146**	**8,947,958**	**7,812,690**

	On demand or within 1 year *RMB'000*	1-5 years *RMB'000*	Over 5 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount at 31/12/2010 *RMB'000*
2010					
Trade and bills payables	711,943	—	—	711,943	711,943
Other payables	419,021	—	—	419,021	419,021
Bank and other borrowings	1,679,299	2,426,509	639,354	4,745,162	3,620,040
	2,810,263	2,426,509	639,354	5,876,126	4,751,004

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

The Company

	On demand or within 1 year *RMB'000*	1-5 years *RMB'000*	Over 5 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount at 31/12/2011 *RMB'000*
2011					
Trade and bills payables	**554,949**	**—**	**—**	**554,949**	**554,949**
Other payables	**358,153**	**—**	**—**	**358,153**	**358,153**
Bank and other borrowings	**358,523**	**725,273**	**—**	**1,083,796**	**980,000**
Obligations under finance leases	**71,672**	**107,703**	**—**	**179,375**	**160,243**
	1,343,297	**832,976**	**—**	**2,176,273**	**2,053,345**

	On demand or within 1 year *RMB'000*	1-5 years *RMB'000*	Over 5 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount at 31/12/2010 *RMB'000*
2010					
Trade and bills payables	479,897	—	—	479,897	479,897
Other payables	394,686	—	—	394,686	394,686
Bank and other borrowings	366,322	512,775	—	879,097	805,272
	1,240,905	512,775	—	1,753,680	1,679,855

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their immediate or short term maturities.

The directors of the Company consider the carrying amounts of the long term bank and other borrowings approximate their fair values as the impact of discounting is not significant.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 2 *RMB'000*
As at 31 December 2011	
Financial liabilities at FVTPL	
Liabilities for cash-settled share-based payments *(Note 30 (ii))*	**7,200**
As at 31 December 2010	
Financial liabilities at FVTPL	
Liabilities for cash-settled share-based payments *(Note 30 (ii))*	8,121

7. TURNOVER

Turnover represents revenue arising from sales of CPTs, luminous materials, liquid crystal related products, TFT-LCD glass substrate and display devices products and solar photovoltaic glass products.

8. SEGMENT INFORMATION

The Group's reportable and operating segments, based on information reported to the chief executive officer, being the chief operating decision maker, with respect to resource allocation and performance assessment are as follows:

1. CPTs production and sales
2. Luminous materials production and sales
3. Liquid crystal related products production and sales
4. TFT-LCD glass substrate and display devices production and sales
5. Solar Photovoltaic glass production and sales

During the year, CPTs and luminous material production and sales was separated into CPTs production and sales; and luminous material production and sales. The management concluded that they should be separately reported, as these two segments were monitored by the chief executive officer separately due to the different trends of their respective markets.

During the year, advanced glass and other production and sales was separated into TFT-LCD glass substrate and display devices production and sales; and solar photovoltaic glass production and sales. The management concluded that these two segments should be separately reported, as they were closely monitored by the chief executive officer that these two segments were different segments with potential growth and are expected to materially contribute to group revenue in the future.

The relevant segment information for the year ended 31 December 2010 was restated for the reclassification.

Information regarding the above segments is reported below.

8. SEGMENT INFORMATION (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2011

	CPTs production and sales	Luminous materials production and sales	Liquid crystal related products production and sales	TFT-LCD glass substrate and display devices production and sales	Solar photovoltaic glass production and sales	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE						
External sales	511,050	1,088,734	1,310,085	5,004	355,475	3,270,348
Segment (loss) profit	(346,724)	157,815	(922)	(337,207)	(26,530)	(553,568)
Unallocated income						31,931
Unallocated expenses						(11,034)
Finance costs						(79,736)
Share of loss of associates						(43,038)
Loss before tax						(655,445)

8. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended 31 December 2010

	CPTs production and sales *RMB'000*	Luminous materials production and sales *RMB'000*	Liquid crystal related products production and sales *RMB'000*	TFT-LCD glass substrate and display devices production and sales *RMB'000*	Solar photovoltaic glass production and sales *RMB'000*	Total *RMB'000*
REVENUE						
External sales	1,368,502	463,014	747,605	—	138,649	2,717,770
Segment profit (loss)	51,901	39,851	22,357	(7,040)	32,208	139,277
Unallocated income						10,613
Unallocated expenses						(17,145)
Finance costs						(64,530)
Share of loss of associates						(24,233)
Profit before tax						43,982

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment loss / profit represents the loss from / profit earned by each segment without allocation of central administration costs, directors' salaries, share of loss of associates, dividend income from available-for-sale investment, interest income and finance costs. This is the measure reported to the chief executive officer with respect to the resource allocation and performance assessment.

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

Segment assets

	2011 **RMB'000**	2010 *RMB'000*
CPTs production and sales	**333,728**	1,021,227
Luminous materials production and sales	**524,163**	480,892
Liquid crystal related products production and sales	**567,768**	58,962
TFT-LCD glass substrate and display devices production and sales	**6,620,771**	5,257,848
Solar photovoltaic glass production and sales	**2,622,587**	876,471
Total segment assets	**10,669,017**	7,695,400
Unallocated assets	**2,650,371**	3,149,122
Consolidated total assets	**13,319,388**	10,844,522

Segment liabilities

	2011 **RMB'000**	2010 *RMB'000*
CPTs production and sales	**243,892**	858,530
Luminous materials production and sales	**243,646**	95,257
Liquid crystal related products production and sales	**222,306**	57,642
TFT-LCD glass substrate and display devices production and sales	**903,335**	424,120
Solar photovoltaic glass production and sales	**650,202**	21,359
Total segment liabilities	**2,263,381**	1,456,908
Unallocated liabilities	**6,003,829**	3,649,915
Consolidated total liabilities	**8,267,210**	5,106,823

For the purposes of monitoring segment performance and allocating resources between segments:

— all assets are allocated to operating segments other than interests in associates, investment properties, available-for-sale investment, restricted bank balances and bank balances and cash. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual operating segments; and

— all liabilities are allocated to operating segments other than tax payables, deferred tax liabilities, bank and other borrowings, obligations under finance leases and liabilities for cash-settled share-based payment. Liabilities for which operating segments are jointly liable are allocated in proportion to segment assets.

8. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2011

	CPTs production and sales *RMB'000*	Luminous materials production and sales *RMB'000*	Liquid crystal related products production and sales *RMB'000*	TFT-LCD glass substrate and display devices production and sales *RMB'000*	Solar photovoltaic glass production and sales *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment profit or loss for segment assets:							
Additions to non-current assets *(Note)*	1,997	55,193	19,067	2,212,888	1,662,096	—	3,951,241
Amortisation of leasehold land and land use rights and intangible assets	1,825	437	—	1,162	1,814	—	5,238
Depreciation of property, plant and equipment	22,012	11,856	1,949	23,654	33,032	—	92,503
Impairment losses on property, plant and equipment	105,234	—	—	311,310	—	—	416,544
Allowance for doubtful debts of trade and other receivables	3,616	3,818	1,902	—	—	—	9,336
Allowance on inventories	107,970	32,744	1,148	—	14,766	—	156,628
Gain on disposal of property, plant and equipment	(55,852)	—	—	—	—	—	(55,852)
Reversal of allowance for doubtful debts of trade and other receivables	—	(988)	—	—	—	—	(988)
Gain on disposal of a subsidiary	(12,871)	—	—	—	—	—	(12,871)
(Gain) loss on sales of raw materials, scraps and packaging materials	(73,270)	4,395	(3,981)	(8,334)	(808)	—	(81,998)
Amounts regularly provided to the chief executive officer but not included in the measure of segment profit or loss or segment assets:							
Interests in associates	—	—	—	—	—	278,394	278,394
Share of loss of associates	—	—	—	—	—	43,038	43,038
Interest income	(4,840)	(565)	(576)	(3,241)	(4,918)	—	(14,140)
Finance costs	—	7,569	1,377	—	—	70,790	79,736
Income tax expenses	10	25,457	1,636	—	420	—	27,523
Depreciation of investment properties	—	—	—	—	—	2,404	2,404

Note: Non-current assets excluded investment properties, interests in associates and available-for-sale investment.

8. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2010

	CPTs production and sales *RMB'000*	Luminous materials production and sales *RMB'000*	Liquid crystal related products production and sales *RMB'000*	TFT-LCD glass substrate and display devices production and sales *RMB'000*	Solar photovoltaic glass production and sales *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets *(Note)*	9,829	17,248	8,287	3,959,009	317,148	—	4,311,521
Amortisation of leasehold land and land use rights and intangible assets	2,531	1,027	—	2,029	—	—	5,587
Depreciation of property, plant and equipment	19,335	8,016	1,363	19,779	6,298	—	54,791
Impairment losses on property, plant and equipment	350	—	—	—	—	—	350
Allowance for doubtful debts of trade and other receivables	593	16,914	126	—	—	—	17,633
Allowance on inventories	17,784	—	—	—	—	—	17,784
Gain on disposal of leasehold land and land use rights	(2,120)	—	—	—	—	—	(2,120)
Gain on disposal of property, plant and equipment	(9,894)	(1,402)	—	—	—	—	(11,296)
Reversal of allowance for doubtful debts of trade and other receivables	(31,042)	(18,464)	(138)	—	—	—	(49,644)
Gain on sales of raw materials, scraps and packaging materials	(3,601)	(6,005)	(428)	(47)	(47)	—	(10,128)
Amounts regularly provided to the chief executive officer but not included in the measure of segment profit or loss or segment assets:							
Interests in associates	—	—	—	—	—	327,044	327,044
Share of loss of associates	—	—	—	—	—	24,233	24,233
Interest income	(1,473)	(93)	—	(1,295)	(256)	—	(3,117)
Finance costs	—	2,037	755	1,182	—	60,556	64,530
Income tax expenses	10	4,477	790	—	—	—	5,277
Depreciation of investment properties	—	—	—	—	—	1,291	1,291

Note: Non-current assets excluded investment properties, interests in associates and available-for-sale investment.

8. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operation is located in the PRC (country of domicile).

Information about the Group's revenue from external customers is presented based on the location of the operations as below :

	2011	2010
	RMB'000	*RMB'000*
The PRC (excluding Hong Kong)	**2,320,945**	2,357,172
Hong Kong	**211,270**	154,820
Europe	**169,755**	110,541
Other countries	**568,378**	95,237
	3,270,348	2,717,770

An analysis of non-current assets excluding financial instruments by geographical location in which the assets are located has not been presented as the Group's non-current assets are all located in the PRC.

Information about major customers

No information about major customer is presented as no single customer contributed over 10% of the total revenue of the Group during the years ended 31 December 2011 and 2010.

9. OTHER OPERATING INCOME

	2011	2010
	RMB'000	*RMB'000*
Gain on disposal of property, plant and equipment	**55,852**	11,296
Interest income	**14,140**	3,117
Gain on sales of raw materials, scraps and packaging materials	**81,998**	10,128
Reversal of allowance for doubtful debts of trade and other receivables	**988**	49,644
Dividend income from available-for-sale investment	**2,175**	1,863
Rental income	**12,381**	5,290
Gain on disposal of land use right	**—**	2,120
Gain on disposal of an associate	**3,235**	—
Gain on disposal of a subsidiary *(Note 38)*	**12,871**	—
Amortisation of deferred income on government grants received *(Note 36)*	**8,743**	9,726
Others	**4,492**	4,884
	196,875	98,068

The direct operating expenses from investment properties that generated rental income amounted to approximately RMB1,667,000 (2010: RMB780,000) for the year ended 31 December 2011.

10. FINANCE COSTS

	2011	2010
	RMB'000	*RMB'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	**181,045**	66,493
Bank and other borrowings wholly repayable over five years	**75,186**	33,310
Discounted trade receivables to banks	**233**	4,826
Obligations under finance leases	**1,079**	—
Amount due to ultimate holding company *(Note 41D (iii))*	**1,168**	2,434
Total borrowing costs	**258,711**	107,063
Less: amounts capitalised in the cost of qualifying assets	**(178,975)**	(42,533)
	79,736	64,530

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.57% (2010: 6.40%) per annum to expenditure on qualifying assets.

11. INCOME TAX EXPENSE

	2011 **RMB'000**	2010 RMB'000
Current tax	**26,740**	5,680
Deferred tax *(Note 37)*	**783**	(403)
Income tax expense	**27,523**	5,277

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong for the two years ended 31 December 2011 and 2010.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain subsidiaries of the Group in the PRC is 25% from 1 January 2008 onwards.

Companies are entitled to the preferential tax treatment for Opening Up of Western China ("OUWC Policy") if they are engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in year 2000) as their principal business and the revenue from the principal operations account for over 70% of their total revenue. The applicable reduced preferential EIT rate under the OUWC Policy is 15%. From 10 September 2004, date of incorporation of the Company, the operations of the Company have met the requirements under the OUWC Policy, and accordingly, EIT has been provided at 15% since then.

The operations of IRICO Display Devices Co., Ltd. ("A Share Company") and Xian IRICO Zixun Co., Ltd have met the requirements under the OUWC Policy for the two years ended 31 December 2011 and 2010, and accordingly, EIT has also been provided at 15%.

Xianyang IRICO Electronics Shadow Mask Co., Ltd. ("IRICO Shadow Mask") is Sino-foreign equity joint ventures engaging in the production business and is exempted from taxation for the first two profitable years and a 50% relief from the national PRC income tax rate (also exempted from paying the 3% local income tax) for the next three profitable years thereafter. As a result, IRICO Shadow Mask which was established in 2003 and the entity is in the exemption period for the two years ended 31 December 2011 and 2010.

Certain subsidiaries of the Group, which are registered in a special economic zone or a technological economic development zone, are taxed at preferential rates ranging from 22% to 24% for the two years ended 31 December 2011 and 2010.

11. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the (loss) profit per the consolidated statement of comprehensive income as follows:

	2011 ***RMB'000***	2010 *RMB'000*
(Loss) profit before tax	**(655,445)**	43,982
Tax calculated at the statutory tax rate of 25% (2010: 25%)	**(163,861)**	10,995
Tax effect of share of loss of associates	**11,320**	6,058
Tax effect of expenses not deductible for tax purpose	**709**	2,389
Tax effect of income not taxable for tax purposes	**(1,372)**	(2,704)
Income under tax exemption and reduction	**(14,895)**	(331)
Tax effect of tax losses not recognised	**60,017**	28,965
Utilisation of tax losses previously not recognised	**(16,560)**	(41,582)
Tax effect of deductible temporary differences not recognised	**152,165**	1,487
Income tax expense	**27,523**	5,277

Details of deferred taxation are shown in Note 37.

12. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging (crediting):

	2011	2010
	RMB'000	*RMB'000*
Cost of inventories recognised as an expense	**3,164,459**	2,311,974
Depreciation for property, plant and equipment	**92,503**	54,791
Depreciation for investment properties	**2,404**	1,291
Amortisation of leasehold land and land use rights	**4,477**	4,276
Amortisation of intangible assets	**761**	1,311
Allowance for doubtful debts of trade and other receivables (included in administrative expenses)	**9,336**	17,633
Research and development costs recognised as an expense	**18,918**	20,040
Allowance on inventories (included in cost of sales)	**156,628**	17,784
Operating lease rentals in respect of leasehold land and land use rights	**6,132**	6,295
Operating lease rentals in respect of property, plant and equipment	**41,176**	36,252
Net foreign exchange losses	**10,875**	6,637
Provision for warranty *(Note 30 (i))*	**9,515**	3,639
Cash-settled share-based payments expense *(Note 30 (ii))*	**656**	11,463
Auditor's remuneration	**3,100**	2,850
Share of tax of associates (included in share of loss of associates)	**(99)**	(63)

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors', supervisors' and senior management's emoluments

(i) The emoluments of each director, supervisor and senior management for the year ended 31 December 2011 are set out below:

Name	Fee *RMB'000*	Salaries and allowance *RMB'000*	Retirement benefit contributions *RMB'000*	Total *RMB'000*
Executive directors				
Mr. Tao Kui	—	33	3	36
Mr. Xing Daoqin (Passed away on 6 November 2011)	—	33	3	36
Mr. Zhang Junhua	—	268	3	271
Non-executive directors				
Mr. Guo Mengquan	—	30	3	33
Mr. Niu Xinan	—	—	—	—
Mr. Fu Jiuquan	—	—	—	—
Mr. Zhang Weichuan	—	—	—	—
Independent non-executive directors				
Mr. Lv Hua	100	—	—	100
Mr. Zhong Pengrong	100	—	—	100
Mr. Xu Xinzhong	100	—	—	100
Mr. Feng Bing	100	—	—	100
Mr. Wang Jialu	100	—	—	100
Supervisors				
Ms. Wang Qi	—	—	—	—
Mr. Fu Yusheng	—	248	21	269
Mr. Tang Haobao	—	229	21	250
Mr. Sun Haiying	—	80	—	80
Ms. Wu Xiaoguang	—	80	—	80
Senior management				
Mr. Zhang Chunning	—	312	21	333
Mr. Zho Changfu	—	304	21	325
Mr. Chu Xiaohang	—	145	11	156
Mr. Lam Chun Lung	—	144	—	144
Mr. Ma Jianchao	—	275	21	296
	500	**2,181**	**128**	**2,809**

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

(ii) The emoluments of each director, supervisor and senior management for the year ended 31 December 2010 are set out below:

Name	Fee *RMB'000*	Salaries and allowance *RMB'000*	Retirement benefit contributions *RMB'000*	Total *RMB'000*
Executive directors				
Mr. Tao Kui	—	271	18	289
Mr. Xing Daoqin	—	271	18	289
Mr. Zhang Junhua	—	241	18	259
Non-executive directors				
Mr. Guo Mengquan	—	244	18	262
Mr. Niu Xinan	—	—	—	—
Mr. Fu Jiuquan	—	—	—	—
Mr. Zhang Weichuan	—	—	—	—
Independent non-executive directors				
Mr. Lv Hua	100	—	—	100
Mr. Zhong Pengrong	100	—	—	100
Mr. Xu Xinzhong	100	—	—	100
Mr. Feng Bing	100	—	—	100
Mr. Wang Jialu	100	—	—	100
Supervisors				
Ms. Wang Qi	—	—	—	—
Mr. Fu Yusheng	—	199	18	217
Mr. Tang Haobao	—	199	18	217
Mr. Sun Haiying	—	80	—	80
Ms. Wu Xiaoguang	—	80	—	80
Senior management				
Mr. Zhang Chunning	—	232	18	250
Mr. Zho Changfu	—	211	18	229
Mr. Ge Di (Retired on 31 March 2010)	—	32	8	40
Mr. Wei Xiaojun (Retired on 31 March 2010)	—	32	8	40
Mr. Chu Xiaohang	—	66	14	80
Mr. Lam Chun Lung	—	123	—	123
Mr. Ma Jianchao (Appointed on 17 May 2010)	—	187	18	205
	500	2,468	192	3,160

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

For the year ended 31 December 2011, the emoluments for Mr. Fu Jiuquan, Mr. Zhang Weichuan, Mr. Niu Xinan and Ms. Wang Qi are born by IRICO Group. Besides, started from March of 2011, except for the emoluments for Mr. Xing Daoqin, Mr. Tao Kui, Mr. Guo Mengquan and Mr. Zhang Junhua which are also born by IRICO Group, other directors and supervisors of the Company received no emoluments from IRICO Group. For the year ended 31 December 2010, except for the emoluments for Mr. Fu Jiuquan, Mr. Zhang Weichuan, Mr. Niu Xinan and Ms. Wang Qi which are born by IRICO Group, other directors of the Company received no emolument from IRICO Group. No apportionment has been made as the directors of the Company consider that it is impracticable to apportion this amount between their services to the Group and their services to IRICO Group.

The cash-settled share-based payments expense of each director, supervisor and senior management for the year ended 31 December 2011 and 2010 are set out below:

Name	**2011** ***RMB'000***	2010 *RMB'000*
Executive directors		
Mr. Tao Kui	**165**	965
Mr. Xing Daoqin	**218**	1,322
Mr. Zhang Junhua	**165**	773
Non-executive directors		
Mr. Guo Mengquan	**125**	887
Mr. Niu Xinan	**125**	912
Mr. Fu Jiuquan	**145**	480
Mr. Zhang Weichuan	**125**	302
Supervisors		
Mr. Fu Yusheng	**62**	190
Mr. Tang Haobao	**62**	113
Senior management		
Mr. Zhang Chunning	**94**	570
Mr. Zho Changfu	**94**	355
Mr. Ge Di (Retired on 31 March 2010)	**25**	358
Mr. Wei Xiaojun (Retired on 31 March 2010)	**25**	727
Mr. Chu Xiaohang	**57**	82
Mr. Ma Jianchao (Appointed on 17 May 2010)	**62**	450
	1,549	8,486

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

During the year 2011 and 2010, the five individuals whose emoluments were the highest in the Group for the year include four directors and one senior management whose emoluments are reflected in the analysis presented above.

During the two years ended 31 December 2011 and 2010, no directors, supervisors and senior management or the five highest paid individuals of the Company waived or agreed to waive any emoluments and no emolument was paid by the Group to any of the directors, supervisors and senior management or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. EMPLOYEES' EMOLUMENTS (EXCLUDING DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS)

	2011 ***RMB'000***	2010 *RMB'000*
Wages and salaries	**299,107**	272,620
Retirement benefit contributions		
— pension obligations *(Note)*	**42,916**	34,829
— one-off termination benefits	**10,257**	—
— early retirement benefits *(Note 32)*	**4,024**	23,298
Welfare and social security costs	**104,648**	73,988
Cash-settled share-based payments expense	**1,171**	2,977
	462,123	407,712

Note: As stipulated by the rules and regulations in the PRC, the Group has participated in state-managed defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 8% (2010: 20% and 8%) respectively, of the employee's basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. The Group has no further pension obligation beyond the above contributions. During the year ended 31 December 2011, the amount of RMB43,044,000 (2010: RMB35,021,000) of retirement benefit contributions was recognised to profit and loss.

15. DIVIDEND

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: nil).

16. (LOSS) EARNINGS PER SHARE

(a) Basic

Basic (loss) earnings per share is calculated by dividing the (loss) profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during each of the year ended 31 December 2011 and 2010.

	2011	2010
(Loss) profit for the year attributable to owners of the Company *(RMB'000)*	**(253,038)**	29,075
Weighted average number of ordinary shares in issue *('000)*	**2,232,349**	2,144,067

(b) Diluted

Diluted (loss) earnings per share was the same as the basic (loss) earning per share as there were no potential dilutive ordinary shares outstanding during the two years ended 31 December 2011 and 2010.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings *RMB'000*	Machinery for electronics production *RMB'000*	Machinery for glass production *RMB'000*	Other machinery *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
COST							
At 1 January 2010	504,198	2,706,118	907,544	778,931	85,914	1,140,471	6,123,176
Additions	—	160	85,867	17,896	15,011	4,190,126	4,309,060
Reclassification upon completion	688,176	94,794	68,274	35,162	4,725	(891,131)	—
Reclassified to investment properties	(35,979)	—	—	—	—	—	(35,979)
Disposals	(15,813)	(191,392)	(144,297)	(39,130)	(6,073)	—	(396,705)
At 31 December 2010 and 1 January 2011	1,140,582	2,609,680	917,388	792,859	99,577	4,439,466	9,999,552
Additions	2,313	27,435	75,961	61,104	6,006	2,928,503	3,101,322
Reclassification upon completion	275,533	103,562	50,088	333,610	17,179	(779,972)	—
Reclassified to investment properties	(2,855)	—	—	—	—	(5,187)	(8,042)
Eliminated on disposal of subsidiaries	(5,260)	—	—	(39,911)	(900)	—	(46,071)
Disposals	(931)	(794,378)	(306,144)	(686,356)	(18,650)	—	(1,806,459)
At 31 December 2011	1,409,382	1,946,299	737,293	461,306	103,212	6,582,810	11,240,302
DEPRECIATION AND IMPAIRMENT							
At 1 January 2010	260,106	2,526,651	893,407	641,206	82,884	—	4,404,254
Reclassified to investment properties	(2,031)	—	—	—	—	—	(2,031)
Eliminated on disposal	(6,562)	(180,978)	(59,478)	(35,500)	(5,780)	—	(288,298)
Depreciation charged for the year	14,956	5,782	14,611	15,632	3,810	—	54,791
Impairment loss recognised for the year	—	350	—	—	—	—	350
At 31 December 2010 and 1 January 2011	266,469	2,351,805	848,540	621,338	80,914	—	4,169,066
Reclassified to investment properties	(536)	—	—	—	—	—	(536)
Eliminated on disposal of subsidiaries	(4,878)	—	—	(38,569)	(794)	—	(44,241)
Eliminated on disposal	(488)	(662,788)	(264,366)	(651,790)	(16,523)	—	(1,595,955)
Depreciation charged for the year	34,711	11,792	15,039	23,790	7,171	—	92,503
Impairment loss recognised for the year	—	16,716	145	128,316	5	271,362	416,544
At 31 December 2011	295,278	1,717,525	599,358	83,085	70,773	271,362	3,037,381
CARRYING VALUES							
At 31 December 2011	1,114,104	228,774	137,935	378,221	32,439	6,311,448	8,202,921
At 31 December 2010	874,113	257,875	68,848	171,521	18,663	4,439,466	5,830,486

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Machinery for electronics production *RMB'000*	Machinery for glass production *RMB'000*	Other machinery *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
COST						
At 1 January 2010	667,578	693,699	267,866	50,711	178,458	1,858,312
Additions	143	85,866	101	212	229,082	315,404
Reclassification upon completion	94,794	75,774	33,304	3,019	(206,891)	—
Disposals	(191,055)	(149,069)	(26,891)	(4,467)	—	(371,482)
At 31 December 2010 and 1 January 2011	571,460	706,270	274,380	49,475	200,649	1,802,234
Additions	44,584	91,599	64,233	3,382	181,078	384,876
Reclassification upon completion	103,562	50,088	60,555	4,004	(218,209)	—
Disposals	(368,612)	(312,946)	(70,497)	(16,859)	—	(768,914)
At 31 December 2011	350,994	535,011	328,671	40,002	163,518	1,418,196
DEPRECIATION AND IMPAIRMENT						
At 1 January 2010	583,232	684,008	226,725	50,528	—	1,544,493
Eliminated on disposal	(180,146)	(72,535)	(25,043)	(4,333)	—	(282,057)
Depreciation charged for the year	5,775	14,611	967	1,062	—	22,415
At 31 December 2010 and 1 January 2011	408,861	626,084	202,649	47,257	—	1,284,851
Eliminated on disposal	(270,290)	(210,014)	(31,731)	(15,004)	—	(527,039)
Depreciation charged for the year	10,748	14,500	4,271	1,826	—	31,345
Impairment loss recognised for the year	14,387	—	2,724	—	—	17,111
At 31 December 2011	163,706	430,570	177,913	34,079	—	806,268
CARRYING VALUES						
At 31 December 2011	187,288	104,441	150,758	5,923	163,518	611,928
At 31 December 2010	162,599	80,186	71,731	2,218	200,649	517,383

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	10 to 40 years
Machinery for electronics production	15 years
Machinery for glass production	6 to 18 years
Other machinery	18 years
Office equipment and others	5 years

The Group's depreciation charge of approximately RMB59,337,000 (2010: RMB45,313,000), RMB288,000 (2010: RMB352,000) and RMB32,878,000 (2010: RMB9,126,000) have been included in cost of sales, selling and distribution costs and administrative expenses respectively.

The Company's depreciation charge of approximately RMB30,712,000 (2010: RMB21,355,000), RMB33,000 (2010: RMB24,000) and RMB600,000 (2010: RMB1,036,000) have been included in cost of sales, selling and distribution costs and administrative expenses respectively.

The Group's buildings comprise:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Buildings situated on the land located in the PRC:		
— between 10 to 50 years	**1,112,777**	872,786
— less than 10 years	**1,327**	1,327
	1,114,104	874,113

The official property title certificates of the Group's buildings with carrying value of approximately RMB766,510,000 (2010: RMB478,726,000) have not yet been issued by the relevant local government authorities. The directors of the Company are of the opinion that the Group's right and interest in such buildings will not be therefore severely prejudiced and the application of the title certificates are in progress.

As at 31 December 2011, bank borrowings of the Group amounting to approximately RMB3,430,172,000 (2010: RMB2,177,768,000) are secured by the Group's buildings and machineries with the carrying value of approximately RMB1,867,845,000 (2010: RMB856,917,000) (Note 31(i)).

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group

During the year ended 31 December 2011, the Group had suffered significant loss from their CPTs production and sales operation and TFT-LCD glass substrate and display devices production and sales operation. As a result of the adverse operating environment and the change of market conditions, the directors of the Company revisited their business plans. Some of the Group's manufacturing facilities of CPTs products will be ceased for production in the coming years. The directors of the Company conducted an impairment review of the Group's property, plant and equipment and determined that a number of those assets were impaired, due to the change of business plans as mentioned above and updated sale projection of its TFT-LCD glass substrate and display devices production and sales operation. Accordingly, impairment losses of approximately RMB16,716,000, RMB145,000, RMB128,316,000, RMB5,000 and RMB271,362,000 had been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2011 in respect of machinery for electronics production, machinery for glass production, other machinery, office equipment and construction in progress respectively.

During the year ended 31 December 2011, the recoverable amounts are determined based on the value-in-use in the impairment assessment. Value-in-use calculation is the cash flow projection based on financial budgets covering an eight-year period which is reference to the estimated useful life of the assets, and discount rate of 7.05%, approved by senior management, depending on the management's expectation on the period the assets could generate further income.

During the year ended 31 December 2010, the directors of the Company conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to physical damage and technical obsolescence. Accordingly, impairment loss of approximately RMB350,000 has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2010 in respect of machinery for electronic production which is used in the CPTs and luminous materials production and sales segment. The recoverable amounts of the relevant assets have been determined on the basis of their values-in-use.

The Group's machinery for electronics production, machinery for glass production, other machinery and office equipments with carrying value of approximately RMB228,774,000, RMB137,935,000, RMB378,221,000 and RMB32,439,000 includes an amount of approximately RMB79,545,000, RMB54,875,000, RMB84,572,000 and RMB4,004,000 respectively (31 December 2010: nil) in respect of assets held under finance leases.

The Company

The Company had recognised impairment losses of approximately RMB14,387,000 and RMB2,724,000 in the statement of comprehensive income for the year ended 31 December 2011 in respect of machinery for electronics production and other machinery respectively due to the same reason as mentioned above. No impairment has been recognised in the statement of comprehensive income for the year ended 31 December 2010.

The Company's net book value of machinery for electronics production, machinery for glass production, other machinery and office equipments of approximately RMB187,288,000, RMB104,441,000, RMB150,758,000 and RMB5,923,000 includes an amount of approximately RMB79,545,000, RMB54,875,000, RMB84,572,000 and RMB4,004,000 respectively (2010: nil) in respect of assets held under finance leases.

18. INVESTMENT PROPERTIES

The Group

	RMB'000
COST	
At 1 January 2010	18,976
Reclassified from property, plant and equipment	33,948
At 31 December 2010 and 1 January 2011	52,924
Reclassified from property, plant and equipment	7,506
At 31 December 2011	60,430
DEPRECIATION	
At 1 January 2010	1,463
Depreciation charged for the year	1,291
At 31 December 2010 and 1 January 2011	2,754
Provided for the year	2,404
At 31 December 2011	5,158
CARRYING VALUES	
At 31 December 2011	55,272
At 31 December 2010	50,170

The above investment properties were depreciated on a straight-line basis at 3.33% per annum.

The investment properties were located in the PRC and were held to earn rentals or for capital appreciation. The investment properties are carried at cost less subsequent accumulated depreciation and any accumulated impairment losses.

For the year ended 31 December 2011, properties with carrying values of approximately RMB7,506,000 (2010: RMB33,948,000) were transferred from buildings to investment properties because the Group has changed its intention in respect of the use of these properties.

In the opinion of the directors of the Company, the fair values of the investment properties were approximated to their carrying values with reference to the recent market prices for similar properties in the same locations and conditions.

19. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their carrying values are analysed as follows:

	RMB'000
COST	
At 1 January 2010	178,614
Additions	66
Disposals	(4,159)
At 31 December 2010 and 1 January 2011	174,521
Additions	179,129
Disposals	(389)
At 31 December 2011	353,261
AMORTISATION	
At 1 January 2010	15,142
Provided for the year	4,276
Disposals	(647)
At 31 December 2010 and 1 January 2011	18,771
Provided for the year	4,477
Disposals	(262)
At 31 December 2011	22,986
CARRYING VALUES	
At 31 December 2011	330,275
At 31 December 2010	155,750

19. LEASEHOLD LAND AND LAND USE RIGHTS *(Continued)*

The Group's leasehold land and land use rights comprise:

	2011	2010
	RMB'000	*RMB'000*
Leasehold land located in the PRC:		
— between 10 to 50 years	**330,275**	155,585
— less than 10 years	**—**	165
	330,275	155,750
Analysed for reporting purposes as:		
— current asset (included in other receivables, deposits and prepayments)	**5,611**	4,217
— non-current asset.	**324,664**	151,533
	330,275	155,750

As at 31 December 2011, bank borrowings of the Group amounting to approximately RMB3,430,172,000 (2010: RMB2,177,768,000) are secured by the Group's leasehold land and land use rights with the carrying value of approximately RMB139,196,000 (2010: RMB145,330,000) (Note 31).

20. INTANGIBLE ASSETS

The Group

	Licences for technical knowledge *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
COST			
At1 January 2010	365,641	3,394	369,035
Additions	1,534	25	1,559
At 31 December 2010, 1 January 2011 and 31 December 2011	367,175	3,419	370,594
AMOTISATION			
At 1 January 2010	365,012	2,640	367,652
Provided for the year	930	381	1,311
At 31 December 2010 and 1 January 2011	365,942	3,021	368,963
Provided for the year	433	328	761
At 31 December 2011	366,375	3,349	369,724
CARRYING VALUES			
At 31 December 2011	800	70	870
At 31 December 2010	1,233	398	1,631

20. INTANGIBLE ASSETS *(Continued)*

The Company

	Licences for technical knowledge *RMB'000*	**Computer software** *RMB'000*	**Total** *RMB'000*
COST			
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	80,746	3,013	83,759
AMOTISATION			
At 1 January 2010	80,477	2,405	82,882
Provided for the year	42	303	345
At 31 December 2010 and 1 January 2011	80,519	2,708	83,227
Provided for the year	45	248	293
At 31 December 2011	80,564	2,956	83,520
CARRYING VALUES			
At 31 December 2011	182	57	239
At 31 December 2010	227	305	532

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Licences for technical knowledge	20 years
Computer software	5 years

The Group's amortisation of approximately RMB540,000 (2010: RMB930,000) has been included in cost of sales and approximately RMB221,000 (2010: RMB381,000) has been included in the administrative expenses.

The Company's amortisation of approximately RMB35,000 (2010: RMB42,000) has been included in cost of sales and RMB258,000 (2010: RMB303,000) has been included in the administrative expenses.

All of the Group's and the Company's licenses for technical knowledge and computer software were acquired from third parties.

21. INVESTMENTS IN SUBSIDIARIES

	2011 **RMB'000**	2010 *RMB'000*
Investments, at cost :		
Shares in a listed company in the PRC	**552,831**	552,831
Unlisted equity interest	**921,407**	857,706
Less: impairment loss on unlisted equity investments	**(15,940)**	(8,724)
	1,458,298	1,401,813
Market value of listed shares in the PRC	**1,055,977**	3,149,810

As at 31 December 2011, The Group's shares in a listed company in the PRC represent a 22.36% (2010: 22.36%) equity interest in A Share Company, a company listed on the Shanghai Stock Exchange of the PRC. The market value of those shares and the net assets value of the A Share Company are approximately RMB1,055,977,000 (2010: RMB3,149,810,000) and RMB3,923,866,000 (2010: RMB4,722,412,000) respectively.

On 28 July 2010, A Share Company, by way of non-public offering, issued 315,608,888 ordinary shares denominated in RMB ("A Shares Issue") to 10 specific investors, including IRICO Group Corporation, at an issue price of RMB11.25 per share and raised gross proceeds and net proceeds of approximately RMB3,550,600,000 and RMB3,497,870,000, respectively. Upon completion of the A Share Issue, total share capital of A Share Company increased from 421,148,800 shares to 736,757,688 shares. As the Company did not participate in the subscription, it continues to hold 172,081,000 shares of A Share Company, representing approximately 23.36% of A Share Company's enlarged total share capital, and remains as the controlling and largest shareholder of A Share Company.

During the period from 19 August 2010 to 29 September 2010, the Company disposed of its 1% equity interests in A Share Company at a total consideration of approximately RMB136,364,000 through the Shanghai Stock Exchange of the PRC, and resulted in a gain on partial disposal of approximately RMB59,605,000 which was included in the capital reserve of the Group. The amount was recognised in profit and loss in the Company.

The following list contains only the particulars of subsidiaries which in the opinion of the directors of the Company, those subsidiaries principally affect the results, assets and liabilities of the Group as at 31 December 2011 and 2010. To give details of other subsidiaries would in the opinion of the directors of the Company, result in particulars of excessive length.

21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

As at 31 December 2011 and 2010, the Company had direct and indirect interests in the following subsidiaries, all of which were established and operated in the PRC. The particulars of the principal subsidiaries are set out below:

Name	Registered/ paid in capital	Proportion ownership interest/ voting power held by the Company Directly	Indirectly	Principal activities
A Share Company	RMB736,757,688	22.36% *(Notes (i), (iii) (iv) and (v))*	—	Production and development of the electronic products and raw materials for colour display devices
IRICO Kunshan Industry Co., Ltd. ("Kunshan Industry")	RMB60,000,000	80%	10%	Production of the rubber parts of CPTs
Shaanxi IRICO Phosphor Material Co., Ltd. ("IRICO Phosphor")	RMB95,000,000	47.89%	28.42%	Production of phosphor for various types of CPTs
Xian IRICO Zixun Co., Ltd.	RMB130,000,000	100%	—	Production and sales of the parts and components for display devices and the electronic communication products
Xianyang Caiqin Electronic Device Co., Ltd. ("Xianyang Caiqin")	— (2010: RMB25,000,000)	— (2010: 87.16%) *(Note (ii))*	—	Production and sales of pin, anode button, multi-form and frit for CPTs
Xianyang IRICO Electronic Parts Co., Ltd.	RMB55,000,000	60%	—	Sales of shadow mask, frames and electronic products for CPTs
IRICO (Foshan) Flat Panel Display Co., Ltd.	RMB100,000,000	—	51%	Research and development, manufacture, sales of panel display devices, electronic products and components
IRICO (Zhangjiagang) Flat Panel Display Co., Ltd. ("IRICO (Zhangjiagang)")	RMB1,023,000,000 *(Note (vi))*	—	97.75% *(Note (v) and (vii))*	Development of advanced thin film TFT-LCD glass substrate production line project
IRICO (Hefei) LCD Glass Co., Ltd. ("IRICO (Hefei)")	RMB1,820,000,000 *(Note (vi))*	—	99.37% *(Note (vi))*	Setting up of project research of liquid crystal display ("LCD") glass substrate

21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Registered/ paid in capital	Proportion ownership interest held by the Company Directly	Indirectly	Principal activities
IRICO Shadow Mask	US$5,000,000	75%	25%	Development and production of the flat shadow mask and the coordinating products for CPTs
Zhuhai Caizhu Industrial Co., Ltd.	RMB50,000,000	90%	—	Manufacture of electronic devices and components
IRICO Display Technology Co., Ltd.	US$13,500,000	75%	—	Production and sale of CPTs, black and white picture tubes and ancillary electronic components
Kunshan Caihong Yingguang Electronics Co., Ltd.	US$4,500,000	—	60%	Production of procession alloy and other products for colour and black and white picture tubes
Nanjing Reide Phosphor Co., Ltd. ("Nanjing Reide")	US$443,300	—	45% *(Note (i))*	Production and processing of recycled phosphor and related products for various types of CPTs
Xian Caihui Display Technology Co., Ltd.	RMB10,000,000	—	90%	R&D, design, manufacture, sales of CPTs, deflection yoke and related component and part as well as the after sale services for the sold product
IRICO Group Electronics (Hong Kong) Company Limited ("IRICO (Hong Kong)")	HK$260,000	100%	—	Investment holding
Shaanxi IRICO Electronics Glass Company Limited ("IRICO Glass")	RMB3,984,357,537 *(Note (vi))*	7.30% *(Note (vi)* and (vii))	90.21% *(Note (vi))*	Production of LCD glass substrate
IRICO (Foshan) Flat Panel Display Glass Company Limited	RMB100,000,000 (2010: nil)	—	88.21% (2010: nil)	Production and sales of panel display glass , electronics products and components

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

(i) As the Group has obtained de facto control over A Share Company and Nanjing Reide as set out in Note 4 and therefore A Share Company and Nanjing Reide became subsidiaries of the Group.

(ii) On 7 April 2011, the Company disposed entire interest in Xiangyang Caiqin to Shaanxi IRICO Photo Electronic Material Corporation which is a wholly-owned subsidiary of the IRICO Group at consideration of approximately RMB36,289,000.

(iii) During the year ended 31 December 2010, the Company acquired additional equity interests of 0.37% in A Share Company from the non-controlling interests at an aggregate consideration of approximately RMB5,362,000.

(iv) On 28 July 2010, A Share Company issued 315,608,888 ordinary shares to 10 specific investors at an issue price of RMB11.25 per share. The net proceeds amounted to approximately RMB3,497,870,000 after deducting direct expenses of approximately RMB45,980,000. Upon completion of the share issue of A Share Company, the equity interest of A Share Company held by the Company decreased from 40.86% to 23.36%.

(v) During the period from 19 August 2010 to 29 September 2010, the Company disposed of 1% interest in A Share Company to the non-controlling shareholders at an aggregate consideration of approximately RMB136,364,000.

(vi) During the year ended 31 December 2010, IRICO (Zhangjiagang), IRICO (Hefei) and IRICO Glass increased the registered capital from the contribution of the owner for RMB1,000,000,000, RMB1,815,000,000 and RMB3,594,357,537 respectively.

(vii) On 22 January 2010, the Company entered into a share transfer agreement with Hebei Dongxu Investment Group Limited to acquire 2.38% interest in IRICO Glass for a total consideration of RMB21,560,000.

As set out in the Company's announcement dated 15 October 2010, the Company has pledged 70,000,000 unrestricted tradable shares in A Share Company to China Foreign Economy and Trade Trust Co., Ltd.（中國對外經濟貿易信託有限公司）("CFET") for a term of 36 months. The shares were pledged as security of a financing arrangement pursuant to which the Company received a loan of RMB200,000,000 (2010: RMB300,000,000) (Note 31) from CFET. At the date of the announcement and the end of the reporting period, the Company holds 164,770,000 shares in A Share Company, representing approximately 22.36% of the total issued share capital of A Share Company.

22. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost of investment in associates — unlisted equity interests in the PRC	**361,600**	368,800	**360,000**	360,000
Share of post-acquisition loss and other comprehensive income,net of dividends received	**(83,206)**	(38,972)	**—**	—
	278,394	329,828	**360,000**	360,000
Less: provision for impairment loss on investment in an associate	**—**	(2,784)	**—**	(2,784)
	278,394	327,044	**360,000**	357,216

As at 31 December 2011 and 2010, the Group had interests in the following associates:

Name	Registered/ paid in capital *RMB'000*	Proportion ownership interest and voting power held by the Company Directly	Indirectly	Principal activities
Sichuan Century Shuanghong Display Devices Co., Limited	1,800,000	20%	—	Production, research and development and sale of plasma display panels ("PDP") and related materials
Shenzhen Ruisheng Phosphor Material Co., Ltd.	4,000	—	40%	Production regenerated red, green and blue phosphor materials
Wujiang Shanyuan Caihong Electronic Co., Ltd. ("Wujiang Shanyuan")	— (2010: 10,000)	—	— (2010: 48%) *(note)*	Production of positive temperature coefficient thermostat and other electronic products

Note: On 24 January 2011, the Kunshan Industry disposed of its 48% equity interest in Wujiang Shanyuan, an associate of the Group, to the owner of Wujiang Shanyuan for a consideration of approximately RMB4,860,000 and gain on disposal of approximately RMB3,235,000 was recognised during the year.

22. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2011	2010
	RMB'000	*RMB'000*
Total assets	**1,652,143**	1,656,294
Total liabilities	**(284,155)**	(49,789)
Net assets	**1,367,988**	1,606,505
Group's share of net assets of associates	**278,394**	329,828

	2011	2010
	RMB'000	*RMB'000*
Revenue	**217,869**	252,346
Loss for the year	**(215,775)**	(124,053)
Other comprehensive (expenses) income	**(18,333)**	4,555
Group's share of loss and other comprehensive (expenses) income for the year	**(46,705)**	(23,322)

23. AVAILABLE-FOR-SALE INVESTMENT

The Group

	2011 **RMB'000**	2010 RMB'000
Unlisted investments	**30,000**	30,000
Impairment loss	**(5,940)**	(5,940)
	24,060	24,060

During the two years ended 31 December 2011 and 2010, the unlisted investments substantially comprise of the investment in equity interests in Western Trust & Investment Co., Ltd. ("WTI"), a state-owned trust enterprise in the PRC. WTI has a number of investments in unlisted enterprises which have no available information concerning their market values. These investments held by WTI are stated at cost in WTI's book.

The available-for-sale investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

24. INVENTORIES

	The Group		**The Company**	
	2011 **RMB'000**	2010 RMB'000	**2011** **RMB'000**	2010 RMB'000
Raw materials	**210,498**	234,521	**87,138**	147,510
Work in progress	**49,997**	59,398	**251**	—
Finished goods	**301,321**	333,461	**123,628**	116,235
Consumables	**14,020**	23,218	**1,236**	15,214
	575,836	650,598	**212,253**	278,959
Allowance of inventories	**(172,997)**	(41,579)	**(87,890)**	(16,568)
	402,839	609,019	**124,363**	262,391

During the year, there was a significant increase in the net realisable value of raw materials due to strong market demand in finished goods. As a result, a reversal of allowance on raw materials of approximately RMB25,210,000 (2010: RMB128,895,000) has been recognised and included in cost of sales for the year ended 31 December 2011.

25. TRADE AND BILLS RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables				
— third parties	**350,941**	227,204	**152,045**	60,514
— related parties *(Note 41 G)*	**25,522**	71,987	**1,745**	6,023
— subsidiaries of the Company	**—**	—	**11,112**	26,571
	376,463	299,191	**164,902**	93,108
Less: allowance for doubtful debts	**(24,680)**	(16,758)	**(21,724)**	(18,208)
Trade receivables — net	**351,783**	282,433	**143,178**	74,900
Trade bills receivable				
— third parties	**193,251**	156,295	**19,472**	54,899
— related parties *(Note 41 G)*	**—**	38,729	**—**	—
	193,251	195,024	**19,472**	54,899
Total trade and bills receivables	**545,034**	477,457	**162,650**	129,799

The Group and the Company do not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The Group allows an average credit period ranging from cash on delivery to 90 days (2010: 90 days) to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

25. TRADE AND BILLS RECEIVABLES (Continued)

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 to 90 days	**287,482**	250,252	**128,915**	72,671
91 to 180 days	**40,514**	15,923	**12,330**	2,007
181 to 365 days	**14,804**	15,463	**108**	136
Over 365 days	**8,983**	795	**1,825**	86
	351,783	282,433	**143,178**	74,900

Included in the Group and the Company's trade receivables are debtors (see below for aged analysis) with aggregate carrying amount of approximately RMB64,301,000 (2010: RMB32,181,000) and RMB14,263,000 (2010: RMB2,229,000) respectively which are past due at the end of the reporting period for which the Group and the Company have not provided for allowance for doubtful debts. The directors of the Company determined that these receivables are due from customers of good credit quality with no history of default.

Ageing of trade receivables which are past due but not impaired:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
91 to 180 days	**40,514**	15,923	**12,330**	2,007
181 to 365 days	**14,804**	15,463	**108**	136
Over 365 days	**8,983**	795	**1,825**	86
Total	**64,301**	32,181	**14,263**	2,229

The Group and the Company's past due but not impaired trade receivables mainly represent sales made to a large number of diversified and recognised and creditworthy customers. Customers who trade on credit terms are subject to credit verification procedures. No impairment loss is required for the past due balance based on the historical payment records.

25. TRADE AND BILLS RECEIVABLES *(Continued)*

The Group and the Company's trade receivables are individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised. The movement in the allowance for doubtful debts of trade receivables is as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**16,758**	48,643	**18,208**	51,059
Impairment losses recognised on receivables	**8,910**	17,619	**3,516**	11,496
Amounts recovered during the year	**(988)**	(49,504)	**—**	(44,347)
At 31 December	**24,680**	16,758	**21,724**	18,208

Included in the allowance for doubtful debts of the Group and the Company are individually impaired trade receivables with an aggregated balance of approximately RMB24,680,000 (2010: RMB16,758,000) and RMB21,724,000 (2010: RMB18,208,000) respectively which have either been placed under liquidation or in severe financial difficulties.

Included in trade receivables are factored debtors amounting to approximately RMB20,090,000 (2010: RMB244,478,000) and RMB10,323,000 (2010: RMB144,434,000) for the Group and the Company respectively. For factored debtors, the Group and the Company will need to repay the financial institutions if there are credit losses on the receivables before the end of factoring period, accordingly, the Group and the Company continue to recognise the full carrying amount of the debtors and has recognised the cash received as a advanced from banks on discounted trade receivables is secured borrowing (see Note 31).

26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables	**129,452**	41,339	**18,475**	4,069
Amounts due from subsidiaries	**—**	—	**126,536**	71,653
Amount due from ultimate holding *(Note 41D(i))*	**63,103**	63,103	**60,296**	60,296
	192,555	104,442	**205,307**	136,018
Less: allowance for doubtful debts	**(3,116)**	(2,690)	**(5,662)**	(662)
	189,439	101,752	**199,645**	135,356
Prepayments	**84,638**	98,696	**27,171**	27,250
Value-added tax ("VAT") recoverables	**756,706**	331,316	**4,110**	2,866
	1,030,783	531,764	**230,926**	165,472

26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

The Group and the Company's other receivables are individually determined to be impaired. The individually impaired receivables are recognised based on the age of balances and current market conditions. Consequently, specific impairment loss was recognised. The Group and the Company do not hold any collateral over these balances. The movement in the allowance for doubtful debts of other receivables is as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**2,690**	2,816	**662**	662
Impairment losses recognised on receivables	**426**	14	**5,000**	—
Amounts recovered during the year	**—**	(140)	**—**	—
At 31 December	**3,116**	2,690	**5,662**	662

Included in the allowance for doubtful debts of the Group are individually impaired other receivables with an aggregated balance of approximately RMB3,116,000 (2010: RMB2,690,000) which have either been placed in severe financial difficulties.

Included in the allowance for doubtful debts of the Company are individually impaired other receivables with an aggregated balance of approximately RMB5,662,000 (2010: RMB662,000) which have either been placed in severe financial difficulties.

27. RESTRICTED BANK BALANCES

The Group and the Company

All restricted bank balances are denominated in RMB.

Restricted bank balances are held in dedicated bank accounts under the name of the Group for the issuance of bank acceptance notes to suppliers.

As at 31 December 2011, the fixed interest rates on restricted bank balances, with maturities from 3 months to 1 year (2010: from 6 months to 1 year), are ranging from 1.91% to 3.78% (2010: 0.36% to 4.14%) per annum.

28. BANK BALANCES AND CASH

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Time deposits	**21,374**	19,013	**—**	—
Other bank balances and cash	**2,058,960**	2,679,417	**222,755**	244,110
	2,080,334	2,698,430	**222,755**	244,110

The Group and the Company

(a) The carrying amounts of the Group's and the Company's bank balances and cash included balance denominated in the following foreign currency.

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**53,276**	74,692	**42,163**	12,458

(b) As at 31 December 2011, the effective interest rates on time deposits, with initial terms mature from 90 days to 365 days (2010: 90 days to 365 days), are ranging from 1.91% to 3.78% (2010: 1.71% to 3.78%) per annum.

As at 31 December 2011 and 2010, the effective interest rate on other bank balances was fixed rate at 0.36% per annum.

(c) The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

29. TRADE AND BILLS PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables				
— third parties	**574,300**	631,089	**456,594**	284,975
— related parties *(Note 41G)*	**47,347**	71,854	**20,224**	56,106
— subsidiaries of the Company	**—**	—	**47,324**	129,816
	621,647	702,943	**524,142**	470,897
Trade bills payables				
— third parties	**198,118**	8,550	**30,807**	8,550
— related parties *(Note 41G)*	**—**	450	**—**	450
	198,118	9,000	**30,807**	9,000
Total trade and bills payables	**819,765**	711,943	**554,949**	479,897

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period.

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 to 90 days	**525,140**	610,704	**441,922**	415,289
91 to 180 days	**101,884**	57,335	**59,772**	40,537
181 to 365 days	**101,320**	26,186	**33,342**	22,027
Over 365 days	**91,421**	17,718	**19,913**	2,044
	819,765	711,943	**554,949**	479,897

The average credit period on purchases of goods is 90 days (2010: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

30. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amount due to ultimate holding company *(Note 41 D (ii) and (iii))*	**160,188**	154,621	**98,584**	122,778
Amounts due to subsidiaries	**—**	—	**39,239**	156,982
Provision of warranty *(Note (i))*	**2,875**	2,714	**869**	—
Liabilities for cash-settled share-based payments *(Note (ii))*	**7,200**	8,121	**7,200**	8,121
Others *(Note (iii))*	**895,261**	264,400	**220,330**	114,926
	1,065,524	429,856	**366,222**	402,807

Notes:

(i) The movement of the provision of warranty is as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**2,714**	7,052	**—**	—
Charged to the consolidated statement of comprehensive income *(Note 12)*	**9,515**	3,639	**6,680**	—
Utilised during year	**(9,354)**	(7,977)	**(5,811)**	—
At 31 December	**2,875**	2,714	**869**	—

Under the terms of the Group's sales agreements, the Group will rectify product defects arising within three years from the date of sales. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the year prior to the end of the reporting period. The amount of provision takes into account the Group's recent claim experience, and the Group only makes provision where a claim is probable.

30. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes: (Continued)

(ii) The Group implemented a share appreciation rights ("SARs") scheme to motivate and award the directors of the Company, supervisors, senior management and certain employees. Under this SARs scheme, SARs are granted in units representing one H share. No shares will be issued under the SARs scheme. Upon exercise of the SARs, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollars amount equal to the product of the number of SARs exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollars at the date of the exercise. The Company recognises compensation expense of the SARs over the applicable vesting period.

The SARs scheme had been approved State-owned Assets Supervision and Administration Commission of the State Council on 15 February 2004.

Particulars of SARs scheme granted by the Group as at 31 December 2011 and 2010 are as follows:

Scheme	Date of grant	Number of granted SARs	Exercise price *(HK$)*
2006 (the "2006 Scheme")	22 July 2006	10,190,000	0.38
2007 (the "2007 Scheme")	13 March 2007	10,630,000	0.67
2008 (the "2008 Scheme")	21 March 2008	9,320,000	0.46
2010 (the "2010 Scheme")	21 March 2010	8,860,000	0.80

30. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes: (Continued)

(ii) Under the scheme, all SARs had a contractual life of five to six years from the date grant. A recipient of the SARs could not exercise the rights in the first year after the date of grant for which the SARs were granted before 1 January 2008. As at each of the second, third and fourth year after the date of grant, the total number of SARs exercisable may not in aggregate exceed one-third, two-third and 100%, respectively, of the total SARs granted to such person.

A recipient of SARs could not exercise the rights in the first two years after the date of grant for which the SARs were granted after 1 January 2008. As at each of the third, fourth and fifth year after the date of grant, the total number of SARs exercisable may not in aggregate exceed one-third, two-third and 100%, respectively, of the total SARs granted to such person.

The SARs which have not been exercised after the expiration of the SARs scheme shall be lapsed.

During the year ended 31 December 2011, 2,120,000, 670,000, 373,657 and 132,408 of the SARs granted under the 2006 scheme, 2007 Scheme, 2008 Scheme and 2010 Scheme, respectively, were exercised. As at 31 December 2011, the expiry dates of the outstanding SARs are one, three and five years for the SARs granted under the 2007 Scheme, 2008 Scheme and 2010 Scheme respectively. The 2006 Scheme was expired and reversal of cash settled share based payment in approximately RMB2,064,000 was credited to profit and loss for the year ended 31 December 2011.

During the year ended 31 December 2010, 3,918,148, 730,000 and 828,879 of the SARs granted under the 2006 Scheme, 2007 Scheme and 2008 Scheme, respectively, were exercised. As at 31 December 2010, the expiry dates of the outstanding SARs are one, two, four and six years for the SARs granted under the 2006 Scheme, 2007 Scheme, 2008 Scheme and 2010 Scheme respectively. No any scheme was expired during the year ended 31 December 2010.

At 31 December 2011, the Group and the Company has recorded liabilities of approximately RMB8,778,000 (2010: RMB8,121,000) and recorded total expenses of approximately RMB2,720,000 (2010: RMB11,463,000) for the year then ended. During the year ended 31 December 2011, the total payment for the SARs scheme amounted to RMB1,577,000 (2010: RMB3,342,000). The fair value of the SARs is determined using the Binomial model based on the assumptions with expected volatilities of 8.82% to 66.01%, (2010: 8.82% to 66.01%) risk free rates of 0.31% to 1.76% (2010: 0.31% to 1.76%) and zero dividend yield. At 31 December 2011, the total intrinsic value of the vested SARs of the Group and the Company was RMB2,875,000 (2010: RMB2,714,000) and RMB869,000 (2010: nil).

(iii) Included in the other payables and accruals is an amount due to a fellow subsidiary of approximately RMB9,000 (2010: nil) as at 31 December 2011. The amount is interest-free, unsecured and repayable on demand.

31. BANK AND OTHER BORROWINGS

		The Group		The Company	
		2011	2010	**2011**	2010
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans — secured	(i)	**3,452,233**	2,384,040	**173,000**	298,272
Bank loans — unsecured	(ii)	**1,275,000**	686,000	**407,000**	207,000
Other loans — secured	(iii)	**50,000**	50,000	**—**	—
Other loans — unsecured	(iii)	**200,000**	300,000	**200,000**	300,000
Bank loans — unguaranteed	(iv)	**800,000**	200,000	**200,000**	—
		5,777,233	3,620,040	**980,000**	805,272

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount repayable:				
On demand or within one year	**1,568,601**	1,173,272	**530,000**	425,272
More than one year, but not exceeding two years	**335,204**	—	**150,000**	—
More than two years, but not more than five years	**2,021,814**	1,932,921	**300,000**	380,000
More than five years	**1,851,614**	513,847	**—**	—
	5,777,233	3,620,040	**980,000**	805,272
Less: Amounts shown under current liabilities	**(1,568,601)**	(1,173,272)	**(530,000)**	(425,272)
Amounts shown under non-current liabilities	**4,208,632**	2,446,768	**450,000**	380,000

31. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(i) The Group's secured bank loans represented specific loans of approximately RMB100,000,000 (2010: nil) and RMB150,000,000 (2010: nil) and RMB2,700,247,000 (2010: RMB1,799,768,000) for the purpose of acquiring plant and equipment specifically relating to the production of solar photovoltaic glass, organic light-emitting diode and TFT-LCD glass substrate respectively, from independent third party financial institutions. The remaining balances are used for general working capital of the Group.

As at 31 December 2011, the Group's secured bank borrowing of approximately RMB3,430,172,000 (2010: RMB2,177,768,000) are secured by certain leasehold land and land use rights (Note 19) and buildings and machineries of the Group (Note 17) respectively. In addition to the above securities, a secured bank borrowing of approximately RMB256,425,000 (2010: RMB275,436,000) are also secured by 37.5% (2010: 37.5%) of the issued shares of the Company held by the ultimate holding company as at 31 December 2011 and 2010. Included in the secured bank loans are approximately RMB2,230,000,000 (2010: RMB1,015,000,000) and RMB150,000,000 (2010: nil) are guaranteed by the ultimate holding company and both of ultimate holding company and A Shares Company respectively.

Included in the secured bank loan is advanced from banks on discounted trade receivables of approximately RMB22,061,000 (2010: RMB206,272,000) which are secured by certain factored debtors (Note 25).

The Company's secured bank loans represented general loans from an independent third party financial institution.

As at 31 December 2011, the Company's secured bank borrowings of approximately RMB173,000,000 (2010: RMB298,272,000) are secured by certain buildings and machineries of the Group (Note 17). Included in the secured bank loan is advanced from banks on discounted trade receivables of approximately RMB8,000,000 (2010: RMB108,272,000) which are secured by certain factored debtors (Note 25).

(ii) The Group's unsecured bank loans represented specific loans of approximately RMB261,000,000 (2010: nil) and RMB80,000,000 (2010: nil) for the purpose of acquiring plant and equipment specifically relating to the production of solar photovoltaic glass and organic light-emitting diode respectively, from independent third party financial institutions. The remaining balances are used for general working capital of the Group. The unsecured bank loans are guaranteed by the ultimate holding company and A Shares Company.

The Company's unsecured bank loans represented general loans from independent third party financial institutions. The unsecured bank loans are guaranteed by the ultimate holding company.

31. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(iii) The Group's secured other loans represented a specific loans for the purpose of acquiring plant and equipment specifically relating to the production of organic light-emitting diode from an independent third party financial institution. The secured other loan are secured by certain leasehold land and land use rights of the Group (Note 19).

(iv) The Group's and the Company's unsecured other loans represented general loans from an independent third party financial institution. The unsecured other loans were pledged with 70,000,000 unrestricted tradable share in A share Company, a subsidiary of the Company.

(v) The Group's and the Company's unguaranteed bank loans represented general loans from independent third party financial institutions.

As at 31 December 2011, the Group has approximately RMB475,225,302 (2010: RMB495,378,000) of bank borrowings were denominated in USD while the remaining were denominated in RMB.

All the Company's borrowings are denominated in RMB.

As at 31 December 2011 and 2010, all short term bank borrowings are based on fixed interest rate and long term borrowings are based on fixed and floating rate. The ranges of effective interest rates on the borrowings are as follows:

	2011	2010
Effective interest rates:		
Short term bank borrowings at fixed rate	**4.86%–7.32%**	4.86%–5.56%
Short term bank borrowings at floating rate	**4.86%–6.89%**	—
Long term bank borrowings at fixed rate	**2.39%–8.00%**	2.92%–8.00%
Long term bank borrowings at floating rate	**5.60%–6.63%**	5.90%–6.10%
Long term other borrowings at floating rate	**5.94%**	5.94%

32. TERMINATION BENEFITS

Termination benefits represent early retirement allowance payable to the employees of the Group.

The maturity profile of the termination benefits is as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**10,424**	11,063	**1,855**	2,509
Charged to consolidated statement of comprehensive income *(Note 14)*	**4,024**	23,298	**1,984**	6,206
Payments made during the year	**(3,769)**	(23,937)	**(2,288)**	(6,860)
At 31 December	**10,679**	10,424	**1,551**	1,855
Less: Amounts shown under current liabilities	**(3,112)**	(3,247)	**(1,259)**	(1,445)
	7,567	7,177	**292**	410

The amount represented early retirement allowance payable to the employees of the Group and the Company. Compensation for early retirement is recognised in the earlier of the periods in which the Group and the Company established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

33. OBLIGATIONS UNDER FINANCE LEASES

The Group and the Company

	2011	2010
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Current liabilities	**60,717**	—
Non-current liabilities	**99,526**	—
	160,243	—

33. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

The Group and the Company *(Continued)*

During the year, the Group entered into a sales and leaseback of certain of its machinery for glass production with carrying amount of approximately RMB225,091,000 and selling price of RMB195,000,000 with 3 years lease term (2010: N/A). Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 7.315% (2010: N/A).

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts payable under finance leases				
Within one year	**71,672**	—	**60,717**	—
More than one year but less than two years	**71,672**	—	**65,282**	—
More than two year but less than five years	**36,031**	—	**34,244**	—
	179,375	—	**160,243**	—
Less: future finance charges	**(19,132)**	—	**N/A**	N/A
Present value of obligations under finance lease	**160,243**	—	**160,243**	—
Less: amount due for settlement with 12 months (shown under current liabilities)			**(60,717)**	—
Amount due for settlement after 12 months			**99,526**	—

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

34. SHARE CAPITAL

	Domestic shares		H shares		Total	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
	'000	RMB' 000	'000	RMB' 000	'000	RMB' 000
Registered, issued and fully paid :						
At 1 January 2010	1,455,880	1,455,880	485,294	485,294	1,941,174	1,941,174
Issue of shares by capitalisation of capital reserve *(Note (i))*	145,588	145,588	48,529	48,529	194,117	194,117
Issue of shares upon placing *(Note (ii))*	—	—	97,058	97,058	97,058	97,058
At 31 December 2010, 1 January 2011 and 31 December 2011	1,601,468	1,601,468	630,881	630,881	2,232,349	2,232,349

Notes:

(i) On 3 December 2009, the board of directors of the Company approved a capitalisation issue to holders of H shares and domestic shares on the basis of one capitalisation H shares for every ten H shares and one capitalisation domestic shares for every ten domestic shares in issue on the relevant record date.

The capitalisation issue was approved by the shareholders at the extraordinary general meeting held on 28 January 2010 and the new shares were issued to the shareholders on 1 February 2010. The details are stated in the Company's announcement and circular dated 14 December 2009 and 3 December 2009 respectively.

(ii) As set out in the Company's announcement dated 29 November 2010, 97,058,000 H shares of HK$1 each were issued and allotted to the independent third parties at HK$1.26 per placing share by placing.

These shares rank pari passu in all respects with the respective domestic shares and H shares in issue.

The H shares rank pari passu in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of any other country other than the PRC. The transfer of the domestic shares is subject to such restrictions as the PRC laws may impose from time to time.

35. OTHER RESERVES

The Group

	Capital reserve (Note (i)) RMB'000	Statutory surplus reserve (Note (ii)) RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Total RMB'000
At 1 January 2010	757,144	23,530	(42,414)	(8,199)	730,061
Share of exchange reserve of an associate	—	—	—	911	911
Exchange difference arising on translation of foreign operations	—	—	—	2,520	2,520
Other comprehensive income for the year	—	—	—	3,431	3,431
Issue of shares					
— by capitalisation of capital reserve	(194,117)	—	—	—	(194,117)
— upon placing	25,235	—	—	—	25,235
Transaction costs attributable to issue of shares upon placing	(19,760)	—	—	—	(19,760)
Partial disposal of equity interests in a subsidiary	59,605	—	—	—	59,605
Deemed partial disposal of a subsidiary	739,569	—	—	—	739,569
Acquisition of additional equity interests in subsidiaries	8,916	—	—	—	8,916
Deemed acquisition of equity interests in subsidiaries	(20,224)	—	—	—	(20,224)
At 31 December 2010	1,356,368	23,530	(42,414)	(4,768)	1,332,716

35. OTHER RESERVES *(Continued)*

The Group *(Continued)*

	Capital reserve *(Note (i))* *RMB'000*	Statutory surplus reserve *(Note (ii))* *RMB'000*	Merger reserve *RMB'000*	Exchange reserve *RMB'000*	Total *RMB'000*
At 1 January 2011	1,356,368	23,530	(42,414)	(4,768)	1,332,716
Share of exchange reserve of an associate	—	—	—	(3,667)	(3,667)
Exchange difference arising on translation of foreign operations	—	—	—	237	237
Other comprehensive expense for the year	—	—	—	(3,430)	(3,430)
At 31 December 2011	1,356,368	23,530	(42,414)	(8,198)	1,329,286

The Company

	Capital reserve *(Note (i))* *RMB'000*	Statutory surplus reserve *(Note (ii))* *RMB'000*	Total *RMB'000*
At 1 January 2010	962,623	23,530	986,153
Issue of shares			
— by capitalisation of capital reserve	(194,117)	—	(194,117)
— upon placing	25,235	—	25,235
Transaction costs attributable to issue of shares upon placing	(19,760)	—	(19,760)
At 31 December 2010 and 1 January 2011 and 31 December 2011	773,981	23,530	797,511

35. OTHER RESERVES *(Continued)*

Notes:

(i) Capital reserve

Upon incorporation of the Company on 10 September 2004, the historical net value of the assets, liabilities and interests transferred to the Company were converted into the Company's capital with all the then existing reserves eliminated and the resulting difference dealt with in the capital reserve. Accordingly, a capital reserve, being the difference between the amount of share capital issued and historical net value of the assets, liabilities and interests transferred to the Company, was presented in the reserves of both the Group and the Company. Separate class of reserves, including retained profits, of the Group prior to the incorporation of the Company were not separately disclosed as all these reserves have been capitalised and incorporated in the capital reserve of the Group and the Company.

For the Group's capital reserves, it also comprises of reserves from transactions with the non-controlling interests and deemed contributions from owners of the Company.

(ii) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP") to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

36. DEFERRED INCOME

The deferred income is released to the consolidated statement of comprehensive income over the expected useful life of the relevant assets or when the assets are disposed of or written off. Movements of deferred income during the year are as follows:

The Group

	Government grants related to acquisition of property, plant and equipment *RMB'000*	Government grants related to research and development expenditure *RMB'000*	Government grants related to acquisition of land use rights *RMB'000*	Government grants related to housing subsidies, training, education and other miscellaneous projects *RMB'000*	Government compensation for relocation of factories *RMB'000*	Total *RMB'000*
At 1 January 2010	1,200	93,760	9,841	—	—	104,801
Additions	36,400	165,633	8,488	17,634	—	228,155
Amortised during the year *(Note 9)*	(3,000)	(3,572)	(2,120)	(1,034)	—	(9,726)
At 31 December 2010 and 1 January 2011	34,600	255,821	16,209	16,600	—	323,230
Additions	62,556	16,960	5,610	1,500	20,580	107,206
Amortised during the year *(Note 9)*	(1,240)	(3,407)	(932)	(2,986)	(178)	(8,743)
At 31 December 2011	95,916	269,374	20,887	15,114	20,402	421,693

36. DEFERRED INCOME *(Continued)*

The Company

	Government grants related to acquisition of property, plant and equipment *RMB'000*	**Government grants related to housing subsidies, training, education and other miscellaneous projects** *RMB'000*	**Total** *RMB'000*
At 1 January 2010	—	—	—
Additions	3,400	—	3,400
Amortised during the year	(3,000)	—	(3,000)
At 31 December 2010 and 1 January 2011	400	—	400
Additions	7,200	1,500	8,700
Amortised during the year	(803)	(1,500)	(2,303)
At 31 December 2011	6,797	—	6,797

37. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using principal taxation rate of 25% (2010: 25%) except for certain subsidiaries mentioned in Note 11 which are subject to tax concession to pay income tax at 15% (2010: 15%).

The following are the deferred tax liabilities recognised and movements thereof during the current and prior year:

	Accelerated tax depreciation	
	The Group *RMB'000*	**The Company** *RMB'000*
At 1 January 2010	**(7,960)**	(4,602)
Charged to the consolidated statement of comprehensive income	**403**	—
At 31 December 2010 and 1 January 2011	**(7,557)**	(4,602)
Charged to the consolidated statement of comprehensive income	**(783)**	—
At 31 December 2011	**(8,340)**	(4,602)

The deferred income tax liabilities are to be recovered after more than 12 months.

Deferred income tax assets are recognised for tax loss carry-forwards and other deductible temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unused tax losses of approximately RMB864,429,000 (2010: RMB690,601,000) where, in the opinion of the directors of the Company, it is not probable that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses. The Group's unrecognised deferred tax assets in respect of tax losses will expire progressively until 2015.

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB1,785,709,000 (2010: RMB1,177,049,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

38. DISPOSAL OF A SUBSIDIARY

On 7 April of 2011, the Group disposed of its entire 87.16% interests in Xianyang Caiqin to Shannxi IRICO Photo Electronic Material Corporation ("IRICO Photo"), a wholly-owned subsidiary of IRICO Group Corporation, at a consideration of approximately RMB36,289,000. The net assets of Xianyang Caiqin at the date of disposal were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	1,830
Leasehold land and land use rights	127
Inventories	4,331
Trade and bills receivables	7,471
Other receivables, deposits and prepayments	32,047
Bank balances and cash	1,257
Trade payables	(7,374)
Other payables and accruals	(11,029)
Tax payables	(1,792)
Non-controlling interests	(3,450)
	23,418
Gain on disposal	12,871
Total consideration	36,289
Satisfied by:	
Cash	36,289
Net cash inflow arising on disposal:	
Cash consideration received	36,289
Less: Bank balances and cash disposed of	(1,257)
	35,032

For the Period from 1 January 2011 to the date of disposal, the above subsidiary was mainly engaged in the manufacturing and trading of CPTs for colored television sets in the PRC. The revenue contributed by the subsidiary was approximately RMB23,418,000 and loss of approximately RMB78,000 was included in the Group's loss for the year ended 31 December 2011.

39. MATERIAL LITIGATIONS

(i) The litigation of Curtis Saunders against the Company, A Share Company and IRICO Group Corporation

As set out in the announcement published on the Shanghai Stock Exchange on 25 January 2010 by A Share Company, IRICO Group Corporation, the Company and A Share Company received a statement of claim from Supreme Court of British Columbia in respect of the litigation brought by Curtis Saunders.

Curtis Saunders, the plaintiff, accused approximately 50 global Cathode Ray Tube ("CRT") manufacturers, including IRICO Group Corporation, the Company and A Share Company, of a collusion to manipulate the market and enter into agreements raising the price of CRT to an unreasonable level during the period from 1 January 1995 to 1 January 2008. All these coerced the plaintiff and the public to pay an artificially high price for the CRT products which caused damage to their interests. Hence, the parties filed a claim for damages. Supreme Court of British Columbia has accepted this claim but there is no judgement or ruling yet.

Upon inspection of the Company, the Company has never sold CRT products in the market of Canada directly or via agency since 1995. The directors of the Company consider that the above litigations will not pose any negative impact on its normal business operation.
In the opinion of the directors of the Company, the above case did not have any material impact on the Group's consolidated financial statements for the year ended 31 December 2011 and 2010.

(ii) The litigation of The Fanshawe College of Applied Arts and Technology (hereafter referred as "Fanshawe College") against A Share Company

As set out in the announcement published on the Shanghai Stock Exchange on 7 July 2009 by A Share Company, A Share Company received a statement of claim from Ontario Superior Court of Justice Canada in respect of the litigation brought by Fanshawe College.

Fanshawe College, the plaintiff, accused approximately 30 global CRT manufacturers, including A Share Company, of a conspiracy to maintain, control and stabilise the price of CRT since 1 January 1998, and a collusion to manipulate the market and enter into agreements raising the price of CRT products to an unreasonable level. All these coerced the plaintiff and the public to pay an artificially high price for the CRT products which caused damage to their interests. Hence, the parties filed a claim for damages. Ontario Superior Court of Justice Canada has accepted this claim but there is no judgement or ruling yet.

39. MATERIAL LITIGATIONS *(Continued)*

(ii) The litigation of The Fanshawe College of Applied Arts and Technology (hereafter referred as "Fanshawe College") against A Share Company *(Continued)*

Upon inspection of the Company, the Company has never sold CRT products in the market of Canada directly or via agency since 1995. The directors of the Company consider that the above litigations will not pose any negative impact on its normal business operation.

In the opinion of the directors of the Company, the above cases did not have any material impact on the Group's consolidated financial statements for the year ended 31 December 2011 and 2010.

(iii) The litigation of American Crago Company against A Share Company

As set out in the announcement published on the Shanghai Stock Exchange on 30 January 2008 by A Share Company, A Share Company received a statement of claim from the U.S. District Court, Northern District of California in respect of the litigation brought by American Crago Company.

American Crago Company, the plaintiff, accused a various CRT manufacturing enterprises, including A Share Company, of a conspiracy to control the market which was in violation of antitrust law. It was alleged that the plaintiff and other members in the class proceedings paid more than that would have been determined by competitive market and therefore claimed for triple damages. U.S. District Court, Northern District of California has accepted t his claim but there is no judgement or ruling yet.

Upon inspection of the Company, the Company has never sold CRT products in the market of USA directly or via agency since 1995. The directors of the Company consider that the above litigations will not pose any negative impact on its normal business operation.

In the opinion of the directors of the Company, the above cases did not have any material impact on the Group's consolidated financial statements for the year ended 31 December 2011 and 2010.

40. COMMITMENTS

Capital expenditure

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted for but not provided in the consolidated financial statements:				
— Construction of organic LED production lines	**671,545**	533,044	**—**	—
— Construction of photovoltaic glass production line	**1,029,195**	215,168	**1,029,195**	215,168
— Construction of LCD glass substrate and display devices production lines	**781,062**	1,126,509	**—**	—
— Acquisition of an associate	**105,000**	—	**105,000**	—
	2,586,802	1,874,721	**1,134,195**	215,168

Operating leases

As lessee

At the end of the reporting period, the Group and the Company had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

	The Group				The Company			
	Land use rights		Leasehold buildings		Land use rights		Leasehold buildings	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**6,132**	6,132	**37,432**	36,516	**4,790**	4,790	**22,823**	22,823
In the second to fifth years inclusive	**—**	6,132	**—**	36,271	**—**	4,790	**—**	22,823
	6,132	12,264	**37,432**	72,787	**4,790**	9,580	**22,823**	45,646

40. COMMITMENTS *(Continued)*

Operating leases *(Continued)*

As lessee (Continued)

Operating lease payments represent rentals payable by the Group and the Company for certain of its land use rights and leasehold buildings. Leases are negotiated for an average term of three years respectively and rentals are fixed for an average of one and three years respectively.

As lessor

Property held for earning rental income is expected to generate rental yields of 22.4% (2010: 10.5%) on an ongoing basis. All the properties held have committed tenants for the next 1 year to 9 years (2010: next 1 year to 9 years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Within one year	**11,433**	7,921
In the second to fifth years inclusive	**15,583**	16,290
After five years	**5,901**	8,157
	32,917	32,368

41. RELATED-PARTY TRANSACTIONS

The Group is controlled by IRICO Group Corporation (incorporated in the PRC), which owns 75% of the Company's shares. The remaining 25% of the shares are widely held.

Related parties include IRICO Group Corporation and its subsidiaries (other than the Group), associates and jointly controlled entities (hereinafter collectively referred to the "IRICO Group"), corporations in which the Company is able to control, jointly control or exercise significant influence, key management personnel of the Company and IRICO Group Corporation and their close family members. IRICO Group Corporation does not produce financial statements available for public use.

41. RELATED-PARTY TRANSACTIONS *(Continued)*

In accordance with HKAS 24 (Revised), the Group is exempted from disclosures of transactions with other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government.

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, excluding other state-owned enterprises, during the two years ended 31 December 2011 and 2010 and balances as at 31 December 2011, 31 December 2010 and 1 January 2010 with related party transactions.

The following transactions were carried out with related parties:

A. Sale of goods

	2011	2010
	RMB'000	*RMB'000*
Sales of goods to the IRICO Group *(Note)*		
— Shenzhen Hongyang Industrial Trade Company	**11,440**	6,239
— Caihong Labour Service Company	**2,036**	17,424
— Shaanxi IRICO Photo Electronic Material Corporation	**29,997**	3,098
— The ultimate holding company	**11,197**	124
— Xianyang IRICO Thermoelectricity Co., Ltd.	**171**	249
— Colour Picture Tube Plant	**1,387**	3,122
— IRICO Hospital	**84**	61
— Xianyang IRICO Display Co., Ltd.	**1,183**	41
— Xianyang Cailian Packaging Materials Co., Ltd	**123**	—
— Xianyang Caiqin Electronic Device Co Ltd	**530**	—
— 合肥彩虹藍光科技有限公司	**17**	—
	58,165	30,358
Other state-owned enterprised	**78,879**	556,108

Note: Sales to related parties were conducted with terms mutually agreed by both contract parties with reference to market prices.

41. RELATED-PARTY TRANSACTIONS *(Continued)*

B. Purchases of goods and provision of services

	2011 **RMB'000**	2010 *RMB'000*
Purchases of goods from the IRICO Group *(Note (i))*		
— Caihong Labour Service Company	**7,688**	20,554
— Xianyang Cailian Packaging Materials Co., Ltd.	**23,646**	23,763
— Xianyang Caihong Adhesive Belt Co., Ltd.	**106**	1,199
— Shenzhen Hongyang Industrial Trade Company	**13,163**	15,578
— Xianyang IRICO Electronic Materials Co., Ltd.	**344**	—
— Xianyang IRICO Display Co., Ltd.	**9,498**	20,044
— Xianyang IRICO Thermos Co., Ltd.	**1,311**	28
— IRICO Photo	**25**	32
— Xianyang Caiqin Electronic Device Co Ltd	**8,261**	—
— 上海申顯電子科技有限公司	**57**	—
— 合肥鑫虹光電科技有限公司	**78**	—
— 咸陽彩虹勞保用品有限公司	**255**	—
	64,432	81,198
Other state-owned enterprised	**178,621**	201,864
Purchases of property, plant and equipments — Xianyang IRICO Digital Display Co., Limited	**40**	812
Provision of services from the IRICO Group		
— Rental expense to the ultimate holding company *(Note (ii))*	**45,786**	44,124
— Trademark license fee to the ultimate holding company *(Note (iii))*	**1,751**	1,816
— Network fee to the ultimate holding company	**272**	285
— IRICO Hospital	**1,434**	565
— Utility charges to Colour Picture Tube Plant	**345,381**	352,700
— Miscellaneous charges to Colour Picture Tube Plant	**689**	923
	395,313	400,413
Other state-owned enterprised	**—**	4,714

41. RELATED-PARTY TRANSACTIONS *(Continued)*

B. Purchases of goods and provision of services *(Continued)*

Notes:

(i) Purchases from related parties were conducted with terms mutually agreed by both contract parties with reference to market prices.

(ii) From 1 January 2004, the Group is required to pay RMB14.5 (2010: RMB14.5) per square metre per annum for the use of land use rights and RMB9.5 (2010: RMB9.5) and nil (2010: nil) per square metre per month for the use of buildings in Xianyang and Beijing respectively, pursuant to the Premises Leasing Agreement. Accordingly, rental charges for the year ended 31 December 2011 amounted to approximately RMB45,786,000 (2010: RMB44,124,000).

(iii) License fee for using the trademark owned by the ultimate holding company was paid by the Group, at 0.1% of sales based on the terms stipulated in agreements. In accordance with the agreement signed by one of the subsidiaries, A Share Company, the term is initially for five years from 1998 but renewable automatically unless terminated by either party with a three-month prior notice, and it was revised to end on 31 December 2006. In accordance with the agreement signed by the other entities of the Group, the license fee is to be paid from 1 January 2004 and the agreement is for a term of 3 years up to 31 December 2006 unless terminated by either party with a three-month prior notice, and it was renewed for a term of 3 years up to 31 December 2012.

C. Disposal of a subsidiary

As mentioned in the announcement of the Company dated 8 April 2011, the Company and IRICO Photo, a wholly-owned subsidiary of IRICO Group Corporation, entered into an agreement, pursuant to which the Company agreed to sell and IRICO Photo agreed to purchase the entire 87.16% equity interests in Xianyang Caiqin for a total consideration approximately of RMB36,289,000. The details of the disposal are set out in Note 38.

D. Balance with ultimate holding company

(i) Amount due from the ultimate holding company

	The Group		**The Company**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables, deposits and prepayments				
The ultimate holding company	**63,103**	63,103	**60,296**	60,296

The balance is unsecured, non-interest bearing and repayable on demand.

41. RELATED-PARTY TRANSACTIONS *(Continued)*

D. Balance with ultimate holding company *(Continued)*

(ii) Amount due to the ultimate holding company

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other payables and accruals				
The ultimate holding company	**140,188**	124,622	**98,584**	122,778

The balance is unsecured, non-interest bearing and repayable on demand.

(iii) Loans from the ultimate holding company — Group

	2011	2010
	RMB'000	*RMB'000*
At 1 January	**29,999**	87,565
Repayments	**(11,167)**	(60,000)
Interest expense *(Note 10)*	**1,168**	2,434
At 31 December	**20,000**	29,999

Loans from the ultimate holding company are unsecured, bears interest at 5.47% to 6.22% (2010: 5.47% to 6.22%) per annum and are repayable on demand.

(iv) Director's emolument born by the ultimate holding company

For the year ended 31 December 2011, the emoluments for Mr. Fu Jiuquan, Mr. Zhang Weichuan and Mr. Niu Xinan are born by IRICO Group. Besides, started from March of 2011, the emoluments for Mr. Xing Daoqin, Mr. Tao Kui, Mr. Guo Mengquan and Mr. Zhang Junhua which are also born by IRICO Group.

For the year ended 31 December 2010, the emoluments for Mr. Fu Jiuquan, Mr. Zhang Weichuan, Mr. Niu Xing and Ms. Wang Qi are born by IRICO Group Corporation (Note 13).

41. RELATED-PARTY TRANSACTIONS *(Continued)*

D. Balance with ultimate holding company *(Continued)*

(v) Guarantees granted or assets pledged by the ultimate holding company

As at 31 December 2011 and 2010, the ultimate holding company granted a guarantee and pledged certain of its land and buildings for certain bank borrowings granted to the Company and the Group (Note 31).

As at 31 December 2011, the ultimate holding company had pledged its 37.5% (2010: 37.5%) equity interests in the Company for certain bank borrowings granted to the Group (Note 31).

E. Amount due to a fellow subsidiary

	The Group		**The Company**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other payables and accruals				
Rui Bou Electronics (HK) Ltd	**9**	9	**—**	—

The balance is unsecured, non-interest bearing and repayable on demand.

F. Key management compensation

	2011	2010
	RMB'000	*RMB'000*
Short-term benefits	**2,181**	2,622
Post-employment benefits	**128**	210
Cash-settled share-based payments expense	**1,549**	8,631
	3,858	11,463

The remuneration of directors of the Company and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

41. RELATED-PARTY TRANSACTIONS *(Continued)*

G. Year-end balances arising from sales/purchases of goods/ provision of services

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from related parties				
The IRICO Group				
— IRICO Photo	**21,753**	65	**—**	—
— Shaanxi IRICO Construction Engineering Co., Ltd.	**—**	—	**—**	1
— IRICO Hospital	**—**	—	**—**	1
— Shanghai Languang Technology Co. Ltd.	**—**	2,045	**—**	2,045
— 彩虹集團勞動服務公司	**4**	71	**—**	—
— IRICO Group Co.	**85**	—	**24**	—
— 彩虹彩色顯像管總廠	**7**	—	**1**	—
— 西安彩輝顯示技術有限公司	**730**	—	**5**	—
— Xianyang Caiqin Electronic Device Co Ltd	**4**	—	**—**	—
— Shenzhen Hongyang Industrial Trade Company	**—**	724	**—**	—
	22,583	2,905	**30**	2,047
Other state-owned enterprise	**2,939**	107,811	**1,715**	3,976
	25,522	110,716	**1,745**	6,023
Representing:				
Trade receivables *(Note 25)*	**25,522**	71,987	**1,745**	6,023
Trade bills receivables *(Note 25)*	**—**	38,729	**—**	—
	25,522	110,716	**1,745**	6,023

The balances with other state-owned enterprises and its fellow subsidiaries only accounted for less than 5% of the Group's trade and bills receivables as at 31 December 2011 and 2010.

41. RELATED-PARTY TRANSACTIONS *(Continued)*

G. Year-end balances arising from sales/purchases of goods/provision of services *(Continued)*

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables from related parties				
The IRICO Group				
— Caihong Labour Service Company	**762**	1,917	**14**	1,208
— Xianyang Cailian Packaging Materials Co., Ltd.	**6,320**	21,476	**5,921**	20,158
— Xianyang Caihong Adhesive Belt Co., Ltd.	**—**	783	**—**	57
— Shenzhen Hongyang Industrial Trade Company	**3,414**	10,424	**2,689**	10,406
— The ultimate holding company	**5,366**	22,247	**4,570**	19,071
— IRICO Photo	**—**	67	**—**	11
— Xianyang IRICO Digital Display Co., Limited	**1,911**	512	**1,021**	1
— Shenzhen Caihong Electronics Co. Ltd.	**—**	197	**—**	—
— Colour Picture Tube Plant	**22,336**	3,210	**—**	—
— Xianyang IRICO Electronic Materials Co., Ltd.	**311**	212	**—**	—
— Xianyang Caiqin Electronic Device Co Ltd	**5,581**	—	**5,574**	—
— 咸陽彩虹勞保用品有限公司	**146**	—	**82**	—
	46,147	61,045	**19,871**	50,912
Other state-owned enterprise	**1,200**	11,259	**353**	5,644
	47,347	72,304	**20,224**	56,556
Representing:				
Trade payables *(Note 29)*	**47,347**	71,854	**20,224**	56,106
Trade bills payables *(Note 29)*	**—**	450	**—**	450
	47,347	72,304	**20,224**	56,556

41. RELATED-PARTY TRANSACTIONS *(Continued)*

G. Year-end balances arising from sales/purchases of goods/ provision of services *(Continued)*

The balances with other state-owned enterprises and its fellow subsidiaries only accounted for less than 5% of the Group's trade and bills payables as at 31 December 2011 and 2010.

The trade balances in respect of sales and purchases are under the Group's normal trading terms.

FIVE YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**3,270,348**	2,717,770	2,097,251	3,541,920	3,358,990
(Loss) profit before tax	**(655,445)**	43,982	(1,559,849)	125,427	77,919
Income tax expenses	**(27,523)**	(5,277)	(4,834)	(7,851)	(8,420)
(Loss) profit before non-controlling interests	**(682,968)**	38,705	(1,564,683)	117,576	69,499
Non-controlling interests	**(429,930)**	9,630	(451,669)	22,668	4,836
(Loss) profit attributable to owners of the Company	**(253,038)**	29,075	(1,113,014)	94,908	64,663
Assets, liabilities and non-controlling interests	**24,780,969**	19,574,769	8,912,936	9,131,621	8,473,929
Total assets	**13,319,388**	10,844,522	5,052,153	5,737,136	5,495,330
Total liabilities	**8,267,210**	5,106,823	3,150,959	2,243,654	1,807,841
Non-controlling interests	**3,194,371**	3,623,424	709,824	1,150,831	1,170,758

EXECUTIVE DIRECTORS

Xing Daoqing	Chairman (passed away on 6 November 2011)
Tao Kui	Vice Chairman
Zhang Junhua	President

NON-EXECUTIVE DIRECTORS

Guo Mengquan
Niu Xin'an
Fu Jiuquan
Zhang Weichuan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Xu Xinzhong
Feng Bing
Wang Jialu
Lv Hua
Zhong Pengrong

AUDIT COMMITTEE

Lv Hua
Fu Jiuquan
Feng Bing
Xu Xinzhong
Zhong Pengrong

CHIEF FINANCIAL OFFICER

Ma Jianchao

JOINT COMPANY SECRETARIES

Chu Xiaohang
Lam Chun Lung

QUALIFIED ACCOUNTANT

Lam Chun Lung

AUTHORIZED REPRESENTATIVES

Zhang Junhua
Chu Xiaohang

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